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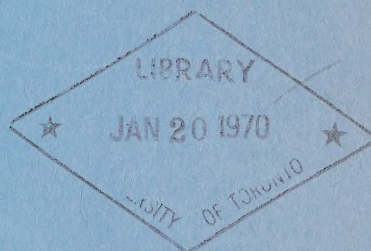
General publication

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A BLUEPRINT FOR CHANGE

CANADA POST OFFICE



NOVEMBER 1969

A BLUEPRINT FOR CHANGE

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The public demands that the Post Office provide an efficient service on a financially self-sustaining basis. To achieve those taxing goals, a radical reorganization is essential. Nevertheless, even if re-constituted as a Crown corporation, the Post Office will continue to face deep-rooted difficulties which stem from the very nature of its operation. Imagination, patience and leadership will be mandatory.

Our studies for the Post Office have been stimulating, challenging and demanding for our personnel as well as those with whom we worked at the Post Office. We are very appreciative of the role that the Post Office personnel played in all studies and particularly of the enthusiasm, support, intent and very real understanding shown by the Deputy Postmaster General, Mr. P. A. Faguy, and the Special Advisor to the Minister, Mr. W. H. Wilson, to whom we have reported during the period of the studies.

Yours truly

Kaplan, Peat, Marwick & Co.

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Yours truly

Mr. J. H. ...

PART I

THE CHALLENGE

CANADA POST OFFICE
A BLUEPRINT FOR CHANGE

PART I - THE CHALLENGE

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KATES, PEAT, MARWICK & CO.

PRUDENTIAL BUILDING
4 KING STREET WEST
TORONTO 1, ONTARIO
362-2371

November 1, 1969

PRIVATE

The Honourable E. W. Kierans
Minister of Communications
House of Commons
Ottawa 4, Ontario

Dear Mr. Kierans:

In September, 1968, you directed the Post Office to commission a series of studies that would permit a critical examination of the Post Office with the object of determining whether or not it should become a Crown corporation. As Minister responsible, you were concerned for many reasons: notably, labour unrest and the resultant upheaval to the economy due to strikes, the rising annual deficit and the consequent drain on the financial resources of the country, complaints and dissatisfaction of business and the public as to postal service, and a desire to upgrade the image of the Post Office on behalf of and for the benefit of the users of mail services - the people of Canada.

Fifteen studies were conducted over the past twelve months by task forces which were assembled by the Post Office and utilized the services of six consulting firms. From these studies emerged the overpowering conclusion that the Post Office, as a Crown corporation, could better fulfil its role in the future. It cannot operate effectively as a department of Government and serious reservations exist as to whether it can continue to meet the requirements of Canada within its existing framework of operations except at exorbitant cost to the people of Canada.

This report, "A Blueprint for Change", is not intended to serve as a summary of the various studies but rather to present an overview of the Post Office today and to bring into perspective the vital considerations and factors that will contribute, and indeed are prerequisites, to a successful postal system for Canada. Part I "The Challenge" defines the problem and indicates the scope of the challenge. Part II deals in depth with many inter-related considerations and factors.

The Post Office as a Crown corporation can achieve operating efficiency. The fundamental needs for achieving this major transformation are few but vitally important. They are:

1. Demand superior managerial performance in the Post Office.
2. Marshal the full support of the Government departments and agencies to assist the Post Office.
3. Provide the Post Office with an operating environment that will permit it to optimize its performance.
4. Upgrade the morale and performance of the postal workers.
5. Provide the means to make the Post Office financially stable.

The Post Office is expected to provide superb service at realistic cost. It can be financially self sustaining. A reorientation of organization, management and operating systems is mandatory. We believe that the Crown corporation status is the organizational form best suited to the attainment of these objectives.

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Chapter 1

A PROBLEM CONFRONTS THE FEDERAL GOVERNMENT

We propose in this report to be blunt, because we believe that the Canada Post Office is at a crossroads in its history. Down one road, unless fundamental changes are effected, lie steadily deteriorating services to the public and a mounting annual deficit which by 1980 could exceed \$500 million. Down the other road, a goal that will not easily be reached no matter how the attempt is made, lies a stable, progressive organization providing a vital national service at a fair cost, and providing also a challenging working environment for its employees.

In a rising curve over the past five years and more, the Post Office has been besieged by adverse criticism of services rendered and harshly criticized for its attitude towards its labour force. It has experienced two national strikes which have seriously inconvenienced the public and has, by its annual deficits, made a significant demand on the nation's financial resources.

These difficulties are by no means unique to the Canada Post Office. They are at least equalled by those of the United States Post Office. The issue is one of action to cure a situation which has been allowed to develop as a result of factors over which the Post Office has largely no control and for which, ultimately, the blame falls upon successive Governments who have consistently neglected what is the largest civilian Government department.

This department is confronted by many challenges:

- rising mail volumes, together with a lack of the equipment it requires; indeed, there is an acute shortage of almost every type of modern mail handling equipment
- rising costs, particularly labour costs since the inception of collective bargaining
- rising competition, both in the form of new types of electronic communication and from the so-called "private" post office.

Concern on the part of the Minister and senior Post Office officials resulted in November 1968 in the commissioning of 15 studies, and these are listed opposite. Task force groups manned by outside consultants and Post Office personnel, examined and reported on the effectiveness of virtually all aspects of postal operations. The findings and recommendations emerging from these studies have been submitted to the Post Office in individual reports. As appropriate, recommendations have been incorporated into this report to the Minister in order to present the current situation in proper perspective, and to support the recommendation that the Post Office indeed become a Crown corporation.

THE CANADA POST
OFFICE - 1969

The Post Office of 1969 reflects the result of considerable neglect by Government of a particularly vital department. An awareness of public requirements, postal rates, manpower management and union relations, working facilities and equipment, and managerial training and development, are the more significant areas in which it is evident that

THE HISTORY OF THE UNITED STATES

OF THE
NORTH AMERICAN CONTINENT

FROM THE FIRST DISCOVERY
TO THE PRESENT TIME

BY
JAMES OSGOOD

The history of the United States is a story of discovery, exploration, and settlement. It begins with the first European contact with the Native Americans, and continues through the years of colonial struggle and independence. The story is one of a people who have built a great nation from a small group of immigrants. The history of the United States is a story of the American dream, of a land where anyone can make a better life for themselves. It is a story of the American spirit, of the courage and determination of the people who have built this nation. The history of the United States is a story of the American people, of the men and women who have shaped the destiny of this great country. It is a story of the American way of life, of the values and ideals that have made this nation what it is today. The history of the United States is a story of the American people, of the men and women who have shaped the destiny of this great country. It is a story of the American way of life, of the values and ideals that have made this nation what it is today.

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STUDIES AUTHORIZED
BY THE CANADA POST OFFICE
November 1968 - July 1969

CROWN CORPORATION STUDIES	STUDY DESIGNATION	CONSULTING FIRM SELECTED	
1 - Organization	A-1	Kates, Peat, Marwick & Co.	
2 - Environmental Forecast	A-2		
3 - Management Practices	A-3		
4 - Management Inventory	A-4		
5 - Management Information System	A-5		
6 - Summary Report (Blueprint)	A-6		
7 - Marketing	A-7	Dr. Stanley J. Shapiro	
8 { Manpower, Planning, Development & Staffing	A-8	Hickling-Johnston Ltd.	
	A-9		
	Classification, Compensation & Benefits		A-10
<u>OTHER STUDIES</u>			
9 - Transportation	B-1	Samson Belair Riddell Stead Inc.	
10 - Facilities Planning	B-2	Kates, Peat, Marwick & Co.	
11 - Productivity	B-3	Price Waterhouse Associates	
12 { Facilities Design	B-6	Price Waterhouse Associates	
	Facilities Forecasting		B-7
	Economic Utilization of Facilities		B-11
	Space & Equipment Optimization		B-12
13 { Presorting	B-9	Price Waterhouse Associates	
	Mail Sortation & Distribution		B-10
14 - E.D.P. Facilities	B-13	D.C.F. Systems Ltd.	
15 - Public Address Postal Coding Study	B-15	Samson Belair Riddell Stead Inc.	

the Post Office has not kept pace with the needs of the times. It would appear that the Post Office has not benefited from periodic objective evaluation, either from the Government or from the Post Office itself, as to its current role in the economy. It would appear that the postal system has not been examined in a broad context. Rather than posing the vital question as to why is the Post Office in operation, and what is it supposed to do, the traditions of the past have persisted. Traditions have not been challenged. It may well be that these challenges have not been forthcoming since more important issues confronted the Government at the time. Failure to challenge tradition has produced the unsatisfactory conditions of today, and it is difficult not to conclude that the Government of Canada over the past decade or more must accept primary responsibility for this situation. Continuity of leadership is vitally important to any organization, but has not been available to the Post Office. It is pertinent to remark that the present Postmaster General is the eighth since 1962. Opposite is a list of recent Postmasters General.

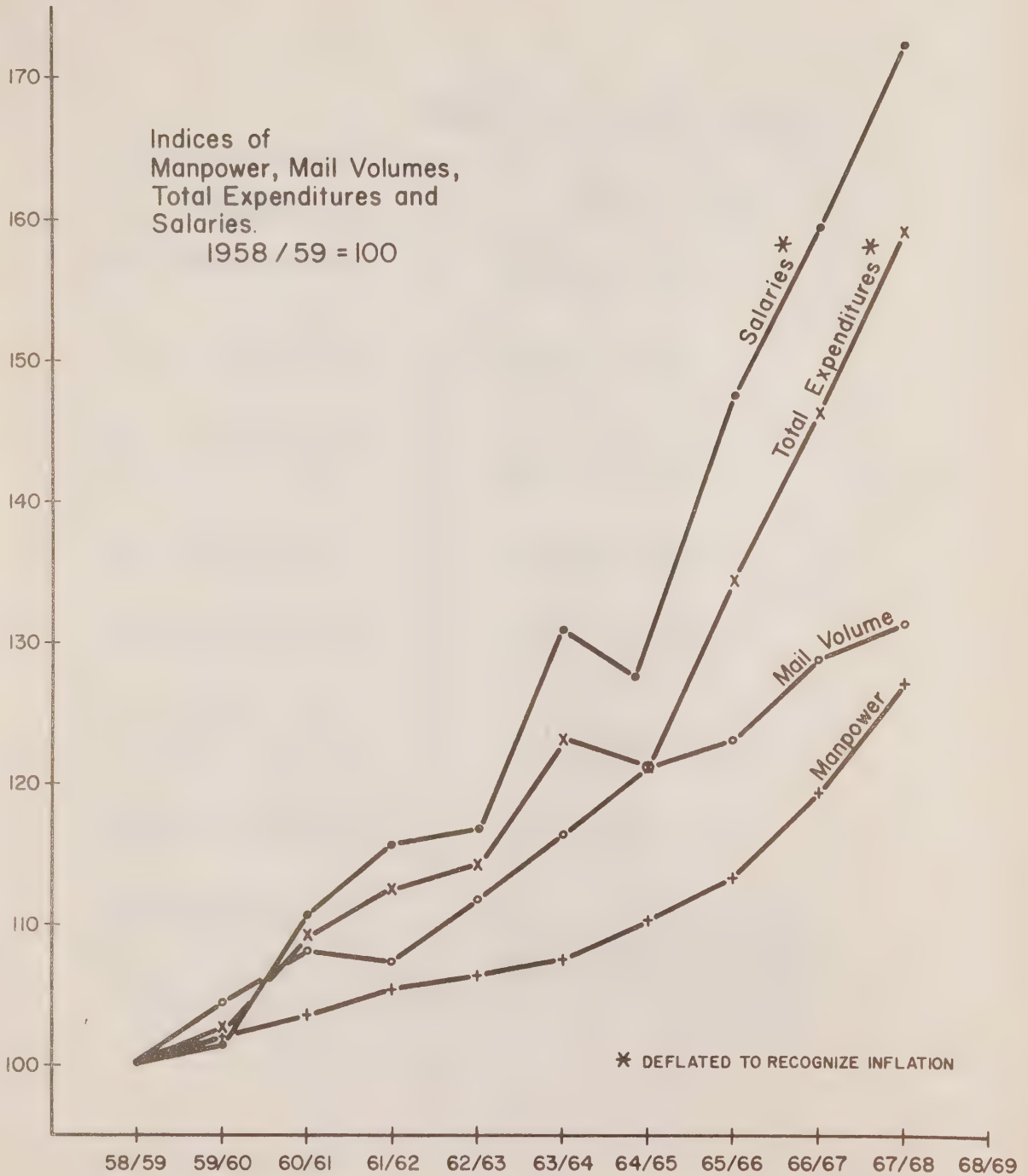
Fluctuating standards of service, rising costs, strikes, the adverse reaction to postal rate increases are all indicators of the problems facing the Post Office today. Projections of revenues, costs and operating deficits in both the current and the long term are extremely serious. If present productivity and costs trends continue, the annual deficit of the Post Office by 1975 could reach \$200 million. Currently, annual revenues are approaching \$500 million, and it has been estimated that by 1980 (assuming reasonable rate increases) they could exceed \$1 billion.



RECENT POSTMASTERS GENERAL

POSTMASTERS GENERAL	PERIOD OF OFFICE
Hon. William Hamilton	21st June, 1957 to 13th July, 1962
Hon. J. Angus MacLean	18th July, 1962 to 9th August, 1962
Hon. Ellen Fairclough	9th August, 1962 to 22nd April, 1963
Hon. Azellus Denis	22nd April, 1963 to 3rd February, 1964
Hon. John R. Nicholson	3rd February, 1964 to 15th February, 1965
Hon. René Tremblay	15th February, 1965 to 16th December, 1965
Hon. Jean-Pierre Côté	18th December, 1965 to 6th July, 1968
Hon. Eric Kierans	7th July, 1968 as Postmaster General, 1st April, 1969 as Minister of Communications.





The problem is clear: the Post Office must find ways and means to process ever increasing mail volumes on an efficient basis. If not, the failure to effect radical change could have an extremely serious impact on business and the economy as a whole. The role of the Post Office in the communications network serving the country is vital. It is a service industry that for the foreseeable future will remain people intensive, and therefore demands the highest degree of competence and dedication from its management group. This group must be comprised of seasoned and experienced executives. They will be charged with the responsibility to implement the many changes necessary to transform the Post Office into an efficient operation. Time is of the essence; nothing less than optimum effort will enable the Post Office to provide the acceptable level of service required for the 1970's and 1980's.

THE BUILD-UP OF A PROBLEM

Continued growth in the economy and the expansion of business have resulted in comparable growth in mail volumes since the middle 1950's. Against this background of mail growth has been an escalating labour bill out of proportion to the increase in staff levels. The chart opposite illustrates the relative rate of growth of these vital factors. In addition, the costs of providing essential services such as transportation and facilities which are integral to the mail processing operation have steadily increased. The Post Office has no direct control over the pricing of its two largest product lines, namely, first and second class mail. The rates for these services are determined by Parliament, and the essen-

STUDIES AND REPORTS ON THE POST OFFICE SINCE 1960

1. Auditor General's Reports	1960 to 1967
2. Postmaster General's Reports	1960 to 1967
3. Glassco Commission Report No. 17 on Reorganization of Post Office	1962
4. Organization Survey of the Post Office Structure	1962
5. Flexible Budgetary System in Post Office	1963
6. Cost Ascertainment System (3 reports)	1964
7. Second Class Mail Cost Survey	1965
8. Integrated Planning and Control of Postal Operations	1966
9. E.D.P. System for Production and Cost for Post Offices	1966
10. Montpetit's Report on Working Conditions in Post Office	1966
11. Scert Simulations for selection of a computer system	1968
12. Organization Study of the Planning and Administrative Services	1968

tial adjustments required in rates have lagged considerably behind the realities of the requirements.

The Post Office has had to compete with other departments of Government for scarce financial resources. In the past two decades, faced with increasing mail volumes, increasing operating costs and numerous other pressures, the Post Office has been unable to marshal the resources that it required to solve the problems as they arose.

The postal system in Canada has been taken very much for granted, and the general public remained immune from and largely unaffected by the problems confronting the Post Office. The Post Office has been continually expected by the mail users of Canada to respond to changing needs in a businesslike manner, and to provide an efficient, reliable mail service at realistic cost. Once service to the public had been interrupted, the reliance placed by the user on the Post Office was brought sharply into focus and his concern about the Post Office emerged quickly.

The various pressures placed upon the department have inevitably resulted in some deterioration in service, with the result that users' confidence in the mails for prompt delivery of communications has been diluted. The Post Office could be criticized for failing to question the relevance of service that it provides, but it could be argued that because of its location in Government, it has been powerless to question its purpose or relevance.

In summary, the conclusion cannot be avoided that Governments in the past have evaded their responsibility towards the Post Office;

actions taken a decade or less ago similar to those recommended in this report, could have avoided most of the problems the Post Office faces today.

THE HEART OF THE MATTER

It is apparent that the Post Office personnel and, in fact, the Government, have been aware of the problems facing the Post Office but action has not been taken. Over the past ten years many facets of postal operations have been examined and studied, and the chart opposite shows a partial list of studies and reports completed during this period. The need for the Government, and the Post Office, to take steps to remedy the present situation is of paramount importance. Theorizing on alternative solutions or commissioning of further studies would prove of little value. Concerted action towards resolving the current situation is vital.

The Post Office is well aware of many of the problems facing it and, in spite of existing constraints, is endeavouring to react in a positive manner to resolving these problems as rapidly as possible. During the past 12 months, improvements have been started in many areas. A definitive action plan is being developed by the Post Office which, if successfully carried out, will do much to correct the existing problems and would prepare the Post Office for its role in the future.

Royal commissions and internal and consultant studies have said and written much about management practices and the inability of the Post Office to effectively cope with personnel problems. Responsibility for

this situation must be shared; it rests to a certain extent with the Post Office, but truly the greater responsibility must be assumed by the system of government in Canada together with the control agencies of the Government. This is a critical and difficult area to examine objectively. On the one hand, it appears that the regulations and roles of individual departments are clearly specified, and do provide a Government department such as the Post Office with the freedom to make changes, and give to senior people full authority and responsibility to carry out their roles. An exploration of the day-to-day environment in the Post Office suggests strongly that actual practice significantly differs from specified procedures. We have concluded that constraints are placed on the administration of the Post Office which prevent fulfilment of their tasks. This is particularly the case in the areas of personnel, facilities and finance.

Problems are facing many of the major postal systems throughout the world, particularly the United Kingdom and the United States as well as Canada. Each of these postal systems has been subjected to exhaustive study, and all are presently engaged in instituting corrective action.

The problems of the United States postal system have been vividly portrayed in the report "Towards Postal Excellence", which summarizes the findings and recommendations emerging from the study by the President's Commission on Postal Organization carried out in 1967 and 1968. Many of the problems confronting the United States system also confront the Canada Post Office, and are succinctly described in an in-

teresting interchange which was documented in 1967 between the Chairman of the House Postal Appropriations Subcommittee (Mr. Steed) and the former Postmaster General (Mr. O'Brien):

*Mr. Steed: "General . . . would this be a fair summary: that at the present time, as the Manager of the Post Office Department, you have no control over your workload, you have no control over the rates of revenue, you have no control over the pay rates of the employees you employ, you have very little control over the conditions of service of these employees, you have virtually no control, by the nature of it, of your physical facilities that you are compelled to use - all of which adds up to a staggering amount of "no control" in terms of the duties you have to perform ..."

Mr. O'Brien: "Mr. Chairman, I would have to generally agree with your premise . . . that is a staggering list of "no control". I don't know (whether) it has ever been put that succinctly to me. If it had been at an appropriate time, perhaps I wouldn't be sitting here."

A COURSE OF ACTION

The overriding requirement if the Post Office is to achieve the levels of service and financial performance that would be satisfactory to the people of Canada, will be the provision of an environment that implies, and indeed means for the Post Office management, independence of thought, and responsibility and accountability in the fullest meaning of these terms, within an organization structure that has full control over all its elements.

With very few exceptions, the officers responsible for the direction of the Post Office are long-term members of the public service

* "Towards Postal Excellence", the report of the President's Commission on Postal Organization, page 34.



and the Post Office and possess a strong loyalty and dedication, particularly to the latter. Their continuing effort in the face of a wide variety of pressures and influences must be commended. They are an integral part of the overall Government system and, indeed, to a large extent, have been shaped and developed by it. Recommendations are put forward herein to introduce service- and commercially-oriented executives into the Post Office. This must not be construed as criticism, implied or otherwise, of the present executive group. To a large extent, in terms of the adverse public image and the overload of responsibility on a handful of individuals in the Post Office today, these individuals are having to pay bills which should have been settled years ago. If criticism is to be levelled, it must be directed at the environment within which the Post Office has had to operate since its inception, particularly in the last decade.

The recommendations emerging from the studies carried out for the Canada Post Office indicate that it must focus its attention on the role and effectiveness of management, the calibre of key personnel, the modernization of plant and equipment and the improvement of postal services. Further, the recommendations call for the organizational structure, responsibilities and authorities and related management techniques necessary to accomplish these goals.

It is difficult to envisage the Post Office - as a department of Government - becoming a dynamic, progressive, efficient operation with commercially-oriented executives and employees. However, this is the

environment that is vitally needed and we believe that the status of Crown corporation for the Canada Post Office is the vehicle which will permit the evolution of this environment.

Note: At many points in this report we employ the phrase "commercially-oriented". We mean by this an organization that is responsive to needs of its customers, alert to the realities of the competitive environment and provides efficient service at the lowest possible cost. This definition of "commercially-oriented", we believe, should be applied as much to a Government department that provides a service at cost to the general taxpayer as to the private concern or to an independent Crown corporation. It must be recognized that the opposite to a "commercially-oriented" Post Office is a Post Office that provides an unsatisfactory service that is unduly costly.

Chapter 2

THE VIABILITY OF A CROWN CORPORATION

The Post Office in Canada is a daily presence, touching the lives of the people across the land.

The expectations of the mail users are essentially simple. They expect that mail entrusted to the Post Office will be delivered to a designated address in accordance with a time and price commitment provided by the system. The user expects the Post Office to anticipate, understand and accommodate his needs. Inadequate service is felt keenly.

Economic trends, technological advances and social factors have all influenced the changing expectations of the user with respect to mail service. In the context of improvement and dramatic advances in all elements of the economy, they rightfully anticipate greater reliability and speed in mail delivery. Members of the public are able to monitor the performance of the Post Office to a degree that is impossible with the activities of any other Government department. Every citizen can recognize a delayed letter, a misdirected letter and inefficient delivery service. It is difficult to evaluate the efficiency of those Government departments which do not deal directly with the public as individuals.

Superficially the movement of mail is a simple task and it is difficult for users unfamiliar with the technicalities of the postal system to understand or condone failures or shortcomings in service. The

mail system is nevertheless a complex process that collects, sorts and distributes mail presented in a myriad of forms, using manual methods and few mechanical or automated aids. Marshalling and directing the resources required to operate a postal system of the size and complexity of the Canada Post Office is a demanding managerial task. Such a system can only be managed effectively if management have the freedom to exercise initiative and make bold and imaginative decisions. With user needs identified, management must be able to deploy resources in a way that will effectively satisfy those needs.

✓ Efficient management of the Post Office demands the creation of an environment that will permit management to operate independently, flexibly and imaginatively. Only with such an environment will the Post Office be able to deal with increasing mail volumes and ever changing conditions. Crown corporation status should permit such an environment.

A Crown corporation should be established and specifically charged with the responsibility of providing the people of Canada with mail and related services of an acceptable standard at an acceptable cost.

Before a Crown corporation is established, a number of significant and sensitive decisions must be made by the Government with respect to:

- the freedom and flexibility that it is prepared to grant to the Crown corporation



- the calibre of individual that it is prepared to appoint to the Board of Directors
- the cost implications of the decision.

CROWN CORPORATION STATUS

A Crown corporation established to discharge responsibility for the efficient management of the postal system will require broad powers for independent action within the framework of overriding Governmental communications and fiscal policy.

Such a corporation would require:

1. A Board of Directors representative of major sectors of the Canadian economy. The Board would be responsible for the approval of corporate policies within the framework of Government guidelines.
2. The freedom to establish rates for services provided, subject to the approval of a Rates Commission.
3. A financial structure that would enable it to be self supporting.
4. Authority to borrow from the Government for the financing of operations.
5. Authority to manage its manpower resources.
6. Authority to contract with departments of Government for the provision of services that it requires, where departments of Government are capable of providing services on an economical basis.

The Corporation should be eligible for the receipt of subsidies for uneconomic services that it is required to provide by Government policy.



THE REALITIES OF
POSTAL ECONOMICS

The financial viability of the Post Office since 1960 has been deteriorating and serious deficits have occurred annually since 1965/66. During that time rate changes have been introduced for many postal services. The principal rate, that for first class mail, has, however, changed only once.

Projections of revenue and expenditure indicate that deficits will continue to increase unless action is taken to adjust the rates in a manner that will produce revenue to cover increased costs. Deficits forecast to 1975-76 assuming continuation of the existing pattern of rates are listed below.

<u>DEFICITS FORECAST WITH NO RATE CHANGES</u>			
(\$ Millions)			
Year	Revenue	Expenditure	Deficit
1970-71	490	544	54
71-72	500	575	75
72-73	520	630	110
73-74	540	685	145
74-75	550	750	200
75-76	570	810	240

Although rate increases are inevitable, positive action can be taken to reduce the frequency and severity of the increases. Cost reduc-



FORECAST OF EXPENDITURES AND RATES

\$4 billion

Forecast of 1st class mail rates
required to balance forecast expenditures.

Forecast includes a 3% p.a. factor for inflation
and a 3% p.a. factor for growth in real income.

\$3 billion

\$2 billion

\$1 billion



Expenditures

1970

1975

1980

1985

1990

tions can be effected in many areas and subsidies can be provided for uneconomic services. It must be emphasized, however, that without rate adjustments, deficits will continue to occur even if significant savings are effected and the improvements recommended by various task forces fulfil their promise of increasing productivity.

The pattern and extent of rate adjustments that would be required to generate the revenue needed to cover expenditures are shown in the chart opposite. The expenditure curve does not reflect savings which might result from hoped for operating improvements. Substantial savings should result from the Crown corporation studies and in addition, savings may occur due to unpredictable and dramatic technological innovation in the future. The rates shown are for first class mail, assuming that other mail rates would retain the same relationship to first class mail as they do today. The rates shown would produce the revenue required to cover expenditures without subsidies.

With the existing pattern of rates, certain services now provided, such as mail to the northern regions of Canada and the second class mail rates that apply to publications, are in effect subsidized by the mail users and the taxpayers in general. Provision of such subsidized services is undoubtedly politically and socially justifiable. The subsidies required for various alternative rate structures are discussed in Part II of this report. The funds derived from such subsidies while significant in themselves, would, however, be relatively small when compared with the revenue produced by the sale of services.

Analysis of the expenditure and revenue forecasts leads unalterably to the conclusion that the economic fate of the Post Office rests squarely with the flexibility and freedom to adjust rates to cover expenditures.

MANAGERIAL EXCELLENCE
AND COMMERCIAL ORIENTATION

Management of the corporation in terms of quality, quantity, attitude, skill and motivation should equate or be consistent with management of commercial organizations of comparable size in terms of revenue, expenditures, employees, facilities and complexity of operations.

The corporation will be unable to fulfil its obligations to the mail users of Canada unless fundamental changes take place in managerial attitudes and practices. This will only be accomplished with strong, dynamic leadership focused on redirecting the motivation of existing staff. Without a high calibre of management cadre, the Post Office will:

- make little significant progress in resolving current problems
- not be equipped to optimize the use of proposed sophisticated operating systems or deal with comprehensive organizational change
- be unable to ensure that the Post Office operates in a manner consistent with the demands of the 1970's and 1980's.

The quality of the senior management group is the most significant consideration before the Post Office today. A transition to Crown corporation status and improvement of operating performance will

place great pressure and demands on key executives during the next two to three years. The recommendations regarding the need to upgrade managerial capability should not be construed to mean that the Post Office lacks talent. The talents, actual and latent, of existing management must be fully developed and the use of this valuable resource must be optimized. Nevertheless, executives with the required managerial orientation will have to be introduced to the corporation from the private sector.

FINANCING CONSIDERATIONS

As a corporate entity, the Post Office will require the provision of finances adequate to meet working capital and future expansion requirements. Provision will also have to be made for existing assets currently utilized by the Post Office in its operation. Such a structure will require adaptability to meet future changing economic conditions without imposing an impractical financial strain on future operations. Transition from the Government approach to financing to the corporate approach will be a radical departure for management. The financial management and cash management techniques used in the private sector will have to be applied.

The corporation should be able to meet operating expenditures out of revenues and provide for a return on the capital required to finance the operation of the Post Office as a Crown corporation. Nevertheless, subsidies may have to be provided to cover the cost of uneconomic services. A target of at least an eight per cent return on capital employed, before taxes, could be a goal, which can be varied with changing economic conditions. The rate should, however, always be at least equal to the cost to the Government of borrowing money. For the purpose of

1890. The following is a list of the names of the persons who have been elected to the office of the President of the United States since the year 1789. The names are given in alphabetical order, and the year of election is given in parentheses. The names are given in the order in which they were elected, and the year of election is given in parentheses.

George Washington (1789), John Adams (1796), Thomas Jefferson (1800), James Madison (1808), James Monroe (1816), John Quincy Adams (1824), Andrew Jackson (1828), Martin Van Buren (1836), William Henry Harrison (1840), Zachary Taylor (1848), Franklin Pierce (1852), James Buchanan (1856), Abraham Lincoln (1860), Andrew Johnson (1865), Ulysses S. Grant (1868), Rutherford B. Hayes (1876), James A. Garfield (1880), Chester A. Arthur (1881), Benjamin Harrison (1888), Grover Cleveland (1892), William McKinley (1896), Theodore Roosevelt (1900), William Howard Taft (1908), Woodrow Wilson (1912), Warren G. Harding (1920), Calvin Coolidge (1923), Herbert Hoover (1928), Franklin D. Roosevelt (1932), Dwight D. Eisenhower (1952), John F. Kennedy (1960), Lyndon B. Johnson (1964), Richard Nixon (1968), Gerald R. Ford (1974), Jimmy Carter (1976), Ronald Reagan (1980), George H. W. Bush (1988), Bill Clinton (1992), George W. Bush (2000), Barack Obama (2008), Donald Trump (2016).

The names of the persons who have been elected to the office of the President of the United States since the year 1789 are given in alphabetical order, and the year of election is given in parentheses. The names are given in the order in which they were elected, and the year of election is given in parentheses.

this discussion the term "capital employed" means: all funds advanced by the Government by way of capital stock, long term advances and also including retained earnings.

Particular attention will have to be given to the cash management function. As the implications of future capital expenditures become more defined, careful attention must be given to a study of the cash flow requirements.

The financial structure must meet both present and future requirements. Present assets and the required operating working capital could be provided for by the issue of common shares.

Attention should be paid to uneconomic services which the Post Office is required to maintain as a result of policy directives by Government and Parliament. The most notable of these, in terms of dollar volume, would be the annual deficit incurred by the transportation of second class mail items. We believe that the cost of such services must be clearly identified and the Post Office reimbursed for the expense incurred, either by way of specific annual appropriations, or by way of authority to increase the general postal rates to the public, or by a combination of both approaches.

Transition from departmental status to a financially sound and autonomous operation will require both time and money. An Improvement Program Fund should be established to finance capital expenditure programs resulting from current studies and provided for out of the appropriations.

During the period of transition, expenditures may be substantial and exceed revenues and this should be provided for on a pre-budgeted

ESTIMATED BALANCE SHEET
OF THE POST OFFICE
AS A CROWN CORPORATION
as at April 1, 1971

<u>ASSETS</u>		<u>Without Land and Buildings</u>	<u>With Land and Buildings</u>
		(IN THOUSANDS OF DOLLARS)	
<u>CURRENT ASSETS</u>			
Cash on hand and in transit		28,000	28,000
Cash in bank		27,020	27,020
Inventory:			
- materials		710	710
- supplies		2,130	2,130
Accounts Receivable		100	100
		<u>57,960</u>	<u>57,960</u>
<u>SECURITY DEPOSITS</u>		300	300
<u>TRUST FUNDS</u>			
Post Office Savings Bank	4,500		
Outstanding Money Orders	37,500		
Philatelic Accounts	<u>165</u>	42,165	42,165
<u>FIXED ASSETS</u>		7,255	57,255
<u>DUE FROM GOVERNMENT IMPROVEMENT FUND</u>		100,000	100,000
<u>SUSPENSE ACCOUNTS</u>		<u>480</u>	<u>480</u>
		<u>208,160</u>	<u>258,160</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable		2,250	2,250
Suspense Accounts		350	350
		<u>2,600</u>	<u>2,600</u>
<u>DUE TO RECEIVER GENERAL OF CANADA</u>		28,710	28,710
<u>TRUST ACCOUNTS</u>			
Post Office Savings Bank	4,500		
Money Orders	37,500		
Philatelic Accounts	<u>165</u>	42,165	42,165
<u>CONTRACTS AND POSTAGE GUARANTEES</u>		300	300
<u>BONDS</u>			50,000
<u>IMPROVEMENT FUND</u>		100,000	100,000
<u>NET WORTH</u>			
Common Stock N.P.V.		<u>34,385</u>	<u>34,385</u>
		<u>208,160</u>	<u>258,160</u>

Notes:

1. It is estimated that the liability for past service pension benefits would be in the range of \$300 million. It is assumed that this will be a liability of the Government of Canada.
2. Fixed Assets have been valued at an estimated depreciated replacement value. The value of assets will be affected to the extent that the Post Office takes over assets presently controlled by the departments of Government.
3. Facility improvement plans have not been fully formulated and therefore funds required for future capital expenditures cannot be fully evaluated or indicated.

basis and financed by Government appropriation or the issue of subscription shares.

The capital expenditures required for the modernization of equipment and facilities over and above the other improvements recommended by consultants' studies are likely to be substantial, and cannot at this stage be reliably forecast. When the facilities improvement plans have been properly formulated the funds required should be forecast and provided for in the corporation's capital structure.

An estimated balance sheet for the corporation as it might appear at the time of vesting (assuming vesting at April 1, 1971) is presented opposite. This has been prepared to recognize two differing situations. On the one hand, the transfer of facilities and real property to the Post Office and on the other hand the provision of real property and accommodation services to the Post Office by other agencies or departments of Government. This estimated balance sheet is provided only for the purpose of presenting, in outline form, a proposed financial structure for the Crown corporation and is not to be regarded as a forecast of the actual financial position at the date specified. It is emphasized that the estimated balance sheets are based on a series of broad assumptions which, by their nature, must be tentative. This balance sheet is discussed in detail in Part II.

MANPOWER MANAGEMENT

The Post Office is manpower intensive. Manpower is the Post Office's most important resource. Almost 70 per cent of the Post Office's budget is spent on salaries.

Unless effective action is taken to upgrade the quality of manpower management in the corporation, it is questionable whether a Crown corporation should be established at all. Corporate management will have to work diligently to improve the quality of their staff relations. They will have to develop meaningful relationships with the unions representing employees in order to elicit their full support of productivity improvements.

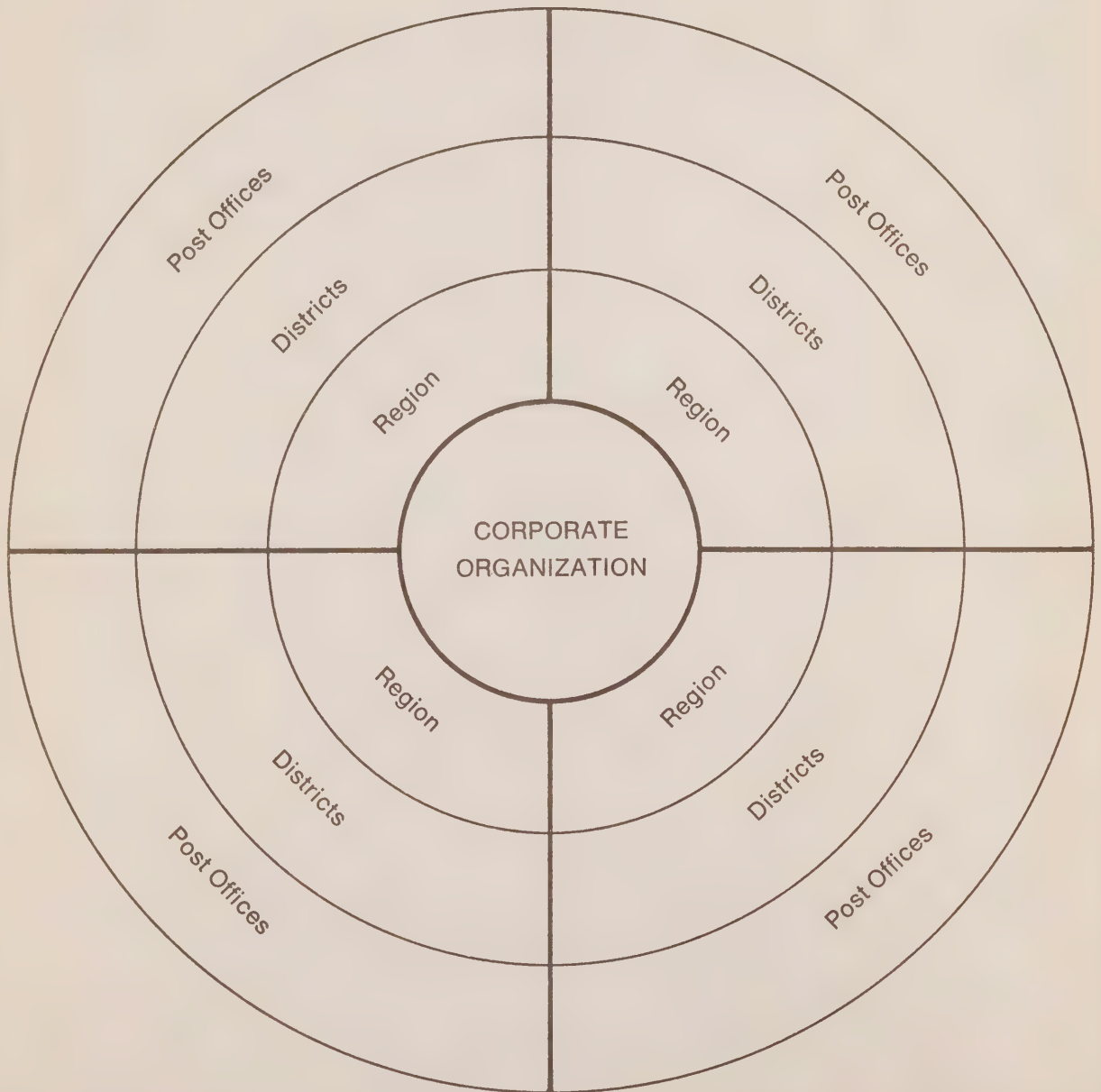
Management of the corporation must have control over its manpower resources. In order to provide management with the independence required for the direction and control of its manpower resources, the corporation must have freedom to bargain with the unions representing its employees without reference to the Government for approval. It will have to be independent of Government personnel policy and practice.

Certain legislative provisions will be required in order to effectively assure its independence:

1. Initially the corporation should be defined as a separate employer under the Public Service Staff Relations Act and ultimately consideration may need to be given to excluding the corporation from the provisions of that Act and placing it under the aegis of the Industrial Relations and Disputes Investigation Act.
2. The corporation would be authorized in its statute to establish a pension fund. Employees of the corporation would also be excluded from the provisions governing the existing Federal Government superannuation plan.

The benefits afforded to employees in the corporation should be provided by means of corporation benefits programs designed for corporation employees, rather than the benefits programs designed for all governmental employees.





Employees transferred from Government services to the postal corporation would have to be protected in a manner that would ensure that there would be no loss of status or benefits as a result of the transfer.

THE ORGANIZATION STRUCTURE

A prerequisite for the effective operation of the postal system will be the establishment of an organization structure that will enable it to realize corporate objectives. Such an organization must be capable of:

- offering a superb service within the framework of national communication policies
- ensuring that the users' needs are properly identified and satisfied
- anticipating and responding to the social, economic and technological trends
- ensuring a continuing search for new and better ways of operating
- providing the human resources of the organization with a challenging environment that will motivate individuals towards the attainment of high levels of productivity.

An organization structure will be required that will permit substantial local autonomy with respect to the management of routine operational matters.

The organization concept proposed is illustrated opposite.

This concept provides for:

- a corporate level that would be responsible essentially for the formulation of corporate-wide policy, the integration and co-ordination of field plans and the evaluation of organizational performance
- regional organizations that would be responsible for the establishment of regional policy within

the framework of national policy and the provision of support services to the operational units in the districts

- district organizations that would group post offices and provide the co-ordinating and directing force required for the provision of effective service
- the individual post offices that would provide users with the mail service.

MANAGEMENT INFORMATION

- A CRITICAL NEED

Line management's ability to optimize the performance of the postal system is largely dependent on the availability of reliable management information. Information systems now in operation are inadequate to meet current needs or to assist in the recognition and resolution of emerging problem situations. The implementation of a reliable information system is vitally needed. Responsibility reporting, monitoring by exception and the provision of current data on operations will do much to enable field management to adjust to their changing role. It is anticipated that the management information system will contribute to freeing management from the tedious task of searching for meaningful data, and enable them to focus their full attention on optimizing performance in their area of responsibility.

The information system proposed for the Canada Post Office will meet the fundamental information needs of the organization. The need is urgent and the approach to implementation must be practical and realistic. Emphasis in the short term must be on the provision of reliable informa-

tion through the effective use of system techniques at the disposal of the Post Office. Ultimately, the total information system will be computerized; in the shorter term, however, reliable reporting, whether it is produced manually or by computer, is a vital requirement for effective management. The effort directed towards the design and implementation of the management information system through to total operation by 1975 represents a substantial but necessary investment of time on the part of senior personnel. The rewards available as a result of this effort, in terms of greater productivity throughout the postal system, will more than compensate for the effort expended.

AUTOMATION -
CONTRIBUTION TO PRODUCTIVITY

Mail processing in the Canada Post Office is essentially a manual operation. The Canada Post Office has invested considerable resources in the evaluation of automated processing facilities but has lagged in the implementation of devices that facilitate routine mail processing and offer enhanced career possibilities for postal workers. The lag in productivity noted earlier can be related to the failure of the Canada Post Office, in comparison to major post offices elsewhere, to introduce mechanical sortation processes. In Canada, this process is basically manual whereas other countries, such as the United States, the United Kingdom, Germany, Australia, are using, or are in the process of using, machines to handle certain fundamental sortation stages.

The goal of postal automation is to assist in stabilizing the

financial future of the Post Office. The cost of processing a first class letter can be reduced as much as 20 per cent through automation in the short term.

The introduction of automated facilities presents a major managerial challenge, particularly in terms of relations with employees whose understanding and support of the broad goals and advantages of automation in terms of the employment opportunities are vital.

The introduction of automation is, however, essential if total annual expenditures are to be controlled and, more important, if the postal system serving the country is to consistently meet current demands. The point is rapidly approaching where manual systems will no longer be adequate. The decision to automate should be taken in the context of equipping the Canada Post Office to fulfil its responsibilities to the country, particularly during the remainder of this century when undoubtedly the availability of a relatively unskilled work force will diminish.



Chapter 3

THE 1970'S - A PERIOD OF CHANGE

Over the past year more than 400 recommendations have been put forward by the consultants and task forces for consideration by the Post Office. The implementation program resulting from these recommendations represents a tremendous challenge to the skills, dedication and energy of senior Post Office personnel. The implementation task force assembled by the Post Office is working diligently at this time to digest the contents of the various reports and to prepare an implementation program.

UPGRADING MANAGEMENT CALIBRE

Regardless of the detailed planning carried out, it is important to reiterate that without the depth of management required, the Post Office will not be able to make significant gains in resolving the current situation and indeed there is a real possibility that the situation might worsen. To attempt a transition to Crown corporation status without fully recognizing the need for a strong dynamic management group would be folly.

A CHANGING ROLE

Introduction of organizational change is complex and has been difficult to implement in the Government environment. In view of their responsibilities, field personnel and management will be required to adjust considerably. They must be prepared to meet the challenge of making decisions and standing fully accountable for the results. This will



represent a significant departure from public service methods and while easily stated, the real challenge to management rests in their ability to instill into Post Office personnel the willingness and attitude of mind that will permit this change in roles to take place.

OPTIMIZATION OF RESULTS

While there are many recommendations to be implemented and many facets to each recommendation, the identification of proper priorities by the Post Office is of paramount importance. We strongly believe that optimum results will be achieved only if the Post Office has available in sufficient quantity and quality the appropriate talent in its management personnel, and if the Post Office is permitted to operate in an environment *only dependent* that is free of the inhibitions and constraints that presently mar its performance. Practical work programs utilizing appropriate project planning and control techniques will have to be defined by the implementation task force and responsibilities fixed for their achievement. The single most important factor that will contribute to the success of the Post Office over the next five to ten critical years will be the dedication of the top people in the Post Office to the task at hand.

TESTING NEW CONCEPTS

A pilot test region in Ontario will commence activity in early 1970. This will be a good testing ground for the capability of the Post Office to carry out its program and to prove the value of effective planning, performance monitoring and evaluation of results. The test region

THE TRANSITION PROGRAM IN PERSPECTIVE

SOURCE	T A S K	GOAL 6 MONTHS	GOAL 6 MONTHS	GOAL 6 MONTHS	GOAL 6 MONTHS	GOAL 6 MONTHS	GOAL 6 MONTHS	GOAL 6 MONTHS
	POST OFFICE HEADQUARTERS				TIME OF VESTING ↓			
A.1	STRENGTHEN AND REORGANIZE HQ	REORGANIZED APPROXIMATE	STAFFING PLAN COMPLETED	AS PLANNED	REORGANIZATION COMPLETED			
A.2	ESTABLISH AUTOMATION PROJECT TEAM	TEAM ESTABLISHED	ALLOCATION OF PERSONNEL COMPLETED					
A.2	DESIGN NATIONAL POSTAL CODE	AS PLANNED	AS PLANNED	AS PLANNED	AS PLANNED			
A.2	ESTABLISH TEAM TO MONITOR ENVIRONMENTAL CHANGES	TEAM ESTABLISHED	AS PLANNED	AS PLANNED				
A.4	INTRODUCE STRICTER REQUIREMENTS FOR PROMOTION	NEW REQUIREMENTS PLANNED	NEW REQUIREMENTS INTRODUCED					
A.4	RECRUIT NEW EMPLOYEES AT UNIVERSITY LEVEL	RECRUITMENT STRATEGY COMPLETED	RECRUITMENT PLAN COMPLETED					
A.5	MANAGEMENT DEVELOPMENT	TEAM ESTABLISHED	PROGRAM APPROVED	PROGRESS AS PLANNED				
A.7	ESTABLISH MARKETING ORGANIZATION	MARKETING ORGANIZATION ESTABLISHED	PROCESSES WITH PERSONAL PLANS					
A.8	INTRODUCE GOAL SETTING AND TESTING PROGRAM	GOAL SETTING PROGRAM COMPLETED	GOAL SETTING AS PLANNED					
A.8	DEVELOP "SHADOW" CLASSIFICATION SYSTEM	SHADOW CLASSIFICATION COMPLETED	SHADOW CLASSIFICATION COMPLETED					
A.9	SET-UP CONTRACT ADMINISTRATION GROUP	GROUP ESTABLISHED	AS PLANNED					
A.9	REVIEW AND AMEND CODE OF DISCIPLINE	REVIEW COMPLETED	CODE OF DISCIPLINE INTRODUCED					
A.9	PREPARE WORK FOR ENABLING LEGISLATION	LEGISLATION COMPLETED	LEGISLATION COMPLETED					
A.9	PREPARE FOR LABOUR / MANAGEMENT CONFERENCES	CONFERENCES COMPLETED	CONFERENCES COMPLETED					
A.9	ESTABLISH STAFF RELATIONS RESEARCH GROUP	GROUP ESTABLISHED	RESEARCH AS PLANNED					
A.9	PREPARE STAFF RELATIONS TRAINING PROGRAM	PROGRAM COMPLETED	AS PLANNED					
	ONTARIO REGION PILOT PROJECT							
A.1	ESTABLISH REGIONAL OBJECTIVES	OBJECTIVES COMPLETED	AS PLANNED					
A.3	RECRUIT EXECUTIVES FROM PRIVATE SECTOR	RECRUITMENT PLAN COMPLETED	AS PLANNED					
A.3	UPDATE CRITERIA FOR RECRUITING EXECUTIVES	CRITERIA COMPLETED	AS PLANNED					
A.4	INTRODUCE STRICTER REQUIREMENTS FOR PROMOTION	NEW REQUIREMENTS COMPLETED	AS PLANNED					
A.4	RECRUIT NEW EMPLOYEES AT UNIVERSITY LEVEL	RECRUITMENT PLAN COMPLETED	AS PLANNED					
A.4	START MANAGEMENT THROUGH VARIOUS POSITIONS	MANAGEMENT THROUGH VARIOUS POSITIONS COMPLETED	AS PLANNED					
A.4	INTRODUCE MANAGEMENT DEVELOPMENT PROGRAMS	MANAGEMENT DEVELOPMENT PROGRAMS COMPLETED	AS PLANNED					
A.5	DEVELOP MIS	DEVELOPMENT COMPLETED	AS PLANNED					
A.7	ESTABLISH MARKETING ORGANIZATION	MARKETING ORGANIZATION COMPLETED	AS PLANNED					
A.7	DEVELOP MARKETING PHILOSOPHY	MARKETING PHILOSOPHY COMPLETED	AS PLANNED					
A.7	UPDATE CUSTOMER RELATIONS	UPDATE COMPLETED	AS PLANNED					
A.7	DEVELOP MARKETING STRATEGY	STRATEGY COMPLETED	AS PLANNED					
	PRIOR TO DRP							
A.1	STRENGTHEN HEADQUARTERS ORGANIZATION	REORGANIZED APPROXIMATE	STAFFING PLAN COMPLETED	AS PLANNED				
A.1	ESTABLISH REGIONAL TASK FORCE	REGIONAL TASK FORCE COMPLETED	AS PLANNED					
A.3	ESTABLISH SERVICE POLICIES AND STANDARDS	SERVICE POLICIES AND STANDARDS COMPLETED	AS PLANNED					
A.3	ESTABLISH MANAGEMENT GROUP RULES	MANAGEMENT GROUP RULES COMPLETED	AS PLANNED					
A.4	RECRUIT EXECUTIVES FROM PRIVATE SECTOR	RECRUITMENT PLAN COMPLETED	AS PLANNED					
A.5	RECRUIT TWO STAFF RELATIONS DIRECTORS	RECRUITMENT PLAN COMPLETED	AS PLANNED					
A.7	CONDUCT MARKET STUDIES	MARKET STUDIES COMPLETED	AS PLANNED					
A.7	ESTABLISH GOALS OF SERVICES OFFERED	GOALS OF SERVICES OFFERED COMPLETED	AS PLANNED					
A.8	INTRODUCE GOAL SETTING AND TESTING PROGRAM	GOAL SETTING PROGRAM COMPLETED	AS PLANNED					
A.8	INTRODUCE "SHADOW" CLASSIFICATION SYSTEM	SHADOW CLASSIFICATION COMPLETED	AS PLANNED					
A.8	ESTABLISH MANAGEMENT PLANNING MODULES	MANAGEMENT PLANNING MODULES COMPLETED	AS PLANNED					
A.9	ESTABLISH PERSONNEL DEPARTMENT FOR MAJOR ORGANIZATIONAL TRANSITIONS	PERSONNEL DEPARTMENT ESTABLISHED	AS PLANNED					
A.9	REVIEW AND AMEND CODE OF DISCIPLINE	REVIEW COMPLETED	CODE OF DISCIPLINE INTRODUCED					
A.9	EMPLOY STAFF RELATIONS SUPERVISOR FOR OBJECTS	STAFF RELATIONS SUPERVISOR EMPLOYED	AS PLANNED					
A.9	DEVELOP STAFF RELATIONS COMMUNICATIONS AND TRAINING PROGRAM	COMMUNICATIONS AND TRAINING PROGRAM COMPLETED	AS PLANNED					
A.9	DEVELOP INTEGRATED PERSONNEL SYSTEM	INTEGRATED PERSONNEL SYSTEM COMPLETED	AS PLANNED					
A.9	REVIEW WORKING CONDITIONS	REVIEW COMPLETED	AS PLANNED					
A.9	INTRODUCE INCENTIVE PROGRAM FOR SELF DEVELOPMENT	INCENTIVE PROGRAM COMPLETED	AS PLANNED					
	GENERAL							
A.3	CONDUCT ANNUAL EXAMINATION OF MANAGEMENT PRACTICES	ANNUAL EXAMINATION COMPLETED	AS PLANNED					
A.4	MONITOR PERFORMANCE OF KEY PERSONNEL	MONITORING COMPLETED	AS PLANNED					

will see several key facets in the Post Office undergoing change, namely, organization structure, upgrading of personnel relations, emphasis on customer contact and co-operation, and the introduction of a management information system. These elements coupled with the delegation of authority to people in the region will generate a considerable change in management style within the Post Office.

MEETING THE CHALLENGE

The chart opposite indicates on a broad time frame basis those elements of the program geared to the implementation of key study recommendations and, in preparation for Crown corporation status, that must take place in parallel. In addition it suggests semi-annual check points that require the overall program to be looked at in perspective to assist management in determining whether or not the total objectives of the Post Office are being achieved. Management of the Post Office at Headquarters and in the pilot test region will have to ensure:

- maintenance of morale throughout the Post Office
- leadership by supervision and example within the test region
- existing services continue and where possible, are improved
- the results of the program are thoroughly tested and evaluated.

During the past twelve months the Post Office, to an extent seldom matched in the Governmental environment, has opened itself to criticism and comment from outside consultants. The environment and attitude



within the Post Office throughout have remained constructive and the senior personnel must be commended for their objectivity and above all their intense dedication to providing a postal system that fulfils the needs of the people of Canada. The task ahead is tremendous and the full impact of the strain put on the organization and the people within it will only be truly understood or appreciated by those involved. The Canada Post Office deserves and must have the fullest support from the Government, Government agencies and departments during the transitional period. With total dedication to the task, it can accomplish its objectives and ultimately become a Crown corporation that without question fulfils its obligations to Canada. And those obligations and objectives can be simply stated: good service at a reasonable cost.

PART II

RESPONDING TO THE CHALLENGE

CANADA POST OFFICEA BLUEPRINT FOR CHANGEPART II - RESPONDING TO THE CHALLENGETABLE OF CONTENTS

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Chapter 1

A QUESTION OF MANAGERIAL RESOURCES

Crown corporation status will only present a viable approach towards improvement of postal services if action is taken to upgrade managerial resources and to improve managerial practices, particularly at the senior levels. The introduction of executives with proven managerial expertise in marketing, production and personnel is a fundamental prerequisite.

The need for top calibre management executives with commercial orientation is overwhelmingly evident. Such executives should be engaged and appointed to key positions in the Post Office without delay. Action has in fact been taken to improve the managerial resources of the Department. The search for talent has commenced.

There is also a need to improve existing management practices. As a Crown corporation, the Post Office will have to adopt the flexible practices followed by the larger organizations in the private sector, such as banks, telephone companies, energy utilities and merchandising concerns and Crown corporations.

The transition from the administrative orientation of the public sector to the managerial orientation of the private sector will be difficult to accomplish because of the degree to which departmental practices have been influenced by the public service policies and regulations.



QUALITY

Our evaluation of managerial calibre is based on our assessment of the suitability of departmental officers for appointment to positions in commercially-oriented organizations, whether privately or publicly owned, as in the case of Crown corporations where factors such as revenue, expenditures, number of employees, number and dispersion of operating locations are comparable to those of the Post Office.

The quality of the managerial resource overall is inadequate when compared with the quality of management found in the larger and more successful enterprises in the private sector. Particular deficiencies include:

- lack of managerial initiative
- an administrative rather than a managerial orientation
- excessive reliance on the regulations and support offered by the public service system
- insufficient managerial experience in organizations that are held truly accountable for results by their shareholders
- lack of the specialized functional skills required for effective management of the postal system
- an unusually high degree of internal appointment to managerial ranks, particularly in the operational category
- unusually low educational levels
- a limited number of young, talented and energetic officers for the size of the organization.

These criticisms of managerial capability should not be construed to mean that the Post Office lacks latent as well as actual talent. Our point is that the talent which does exist has not been fully developed, either because of the inhibiting effect of the public service system, or because of the rather narrow terms in which the postal system has been traditionally viewed. In addition, the professional skills of top management must be broadened.

The Challenge

Major postal systems in the world are traditionally highly labour intensive and have failed to implement mechanized or automated procedures to any significant degree. The Canada Post Office is no exception. The environment in which it operates has become increasingly complex and demanding. The upgrading of operating systems in such an environment represents a significant management challenge. It demands managers with:

- a high degree of managerial skill
- substantial experience in the application of modern business technology
- an aggressive, dynamic approach.

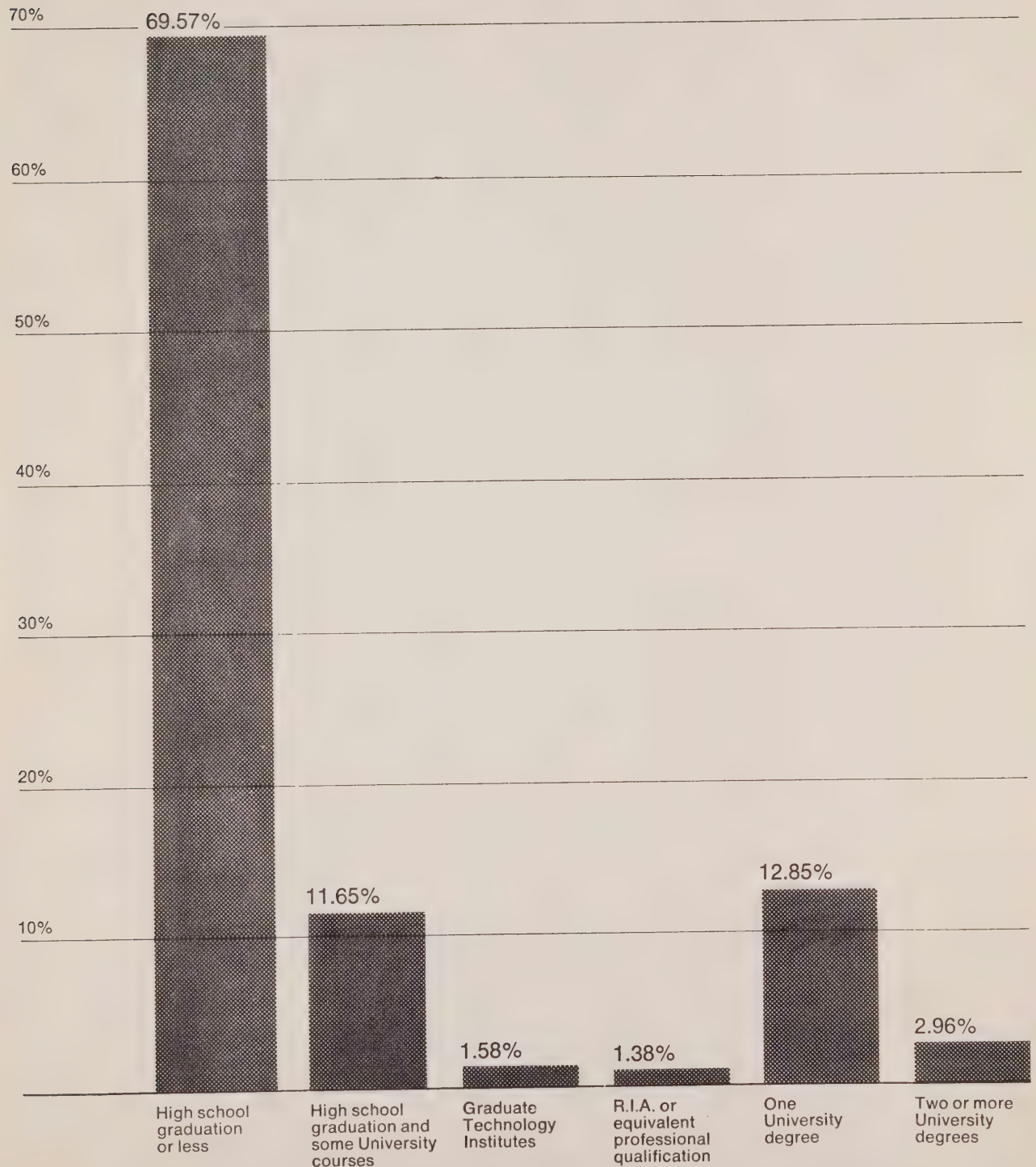
Key Positions

The managerial orientation of a Crown corporation overall will be determined by a multitude of interrelated factors, one of the most important being the calibre and approach of those in the top positions, particularly:

- the Chairman, who would be the chief executive officer

EDUCATIONAL LEVELS OF OFFICERS

at and above the program administration 3 level and its equivalent



- the President, who would be responsible for the operational direction of the organization
- the Vice Presidents, responsible for groups of functional activities
- the General Managers in charge of each region
- the Director in charge of specific functional components.

AN IMMINENT PROBLEM

An analysis of the age and education of approximately 500 officers, at and above the Program Administration 3 level and its equivalents in other occupational groups, indicates unsatisfactory distribution with respect to both factors and the makings of a severe problem for the years ahead.

Educational Levels of Officers in the Managerial Group

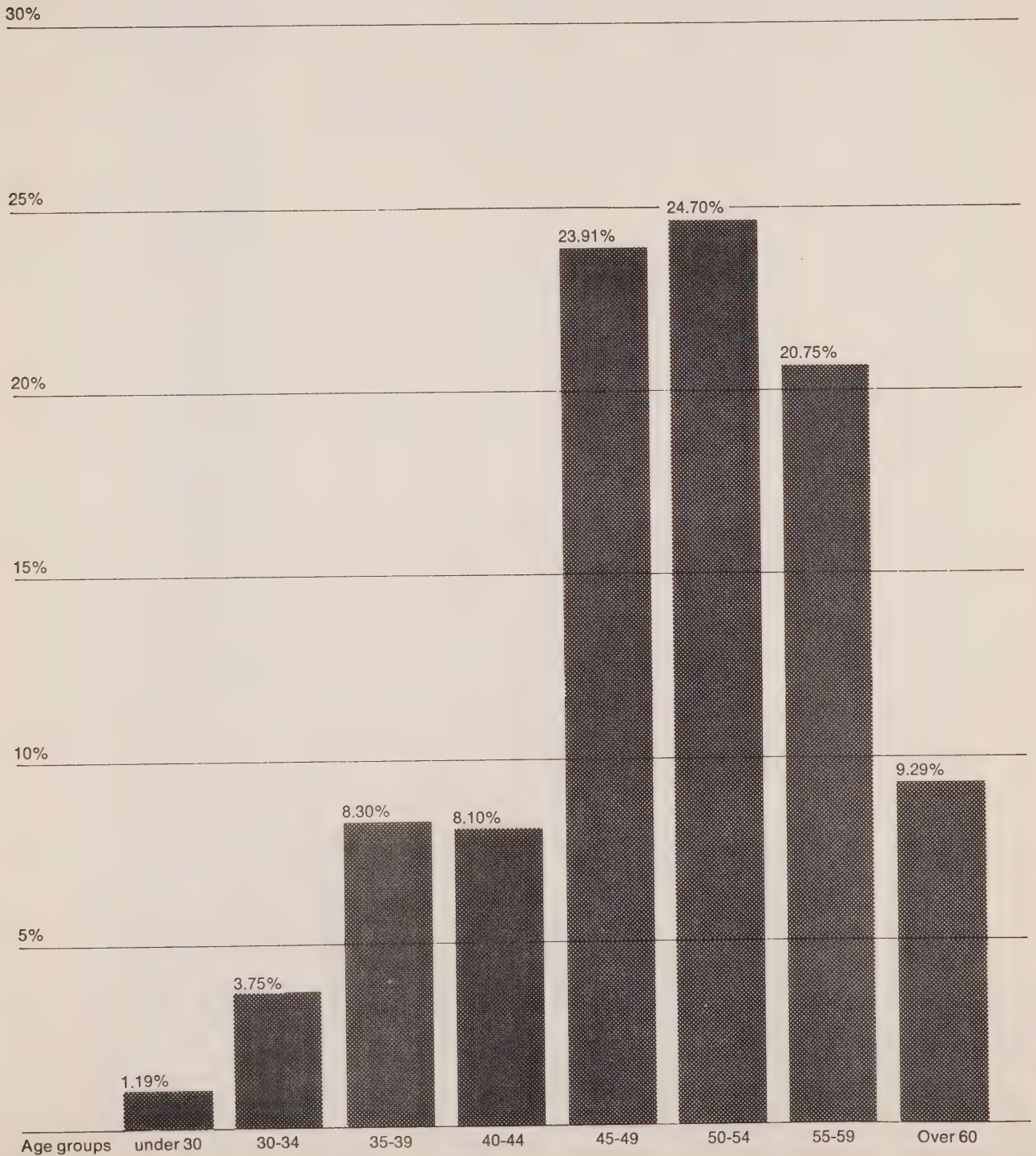
The distribution of educational levels in all occupational groups is illustrated opposite. Only 16 per cent of the officers in the survey have one or more university degrees. For an organization facing the problems that have been confronting the Department for the past few years, educational levels in the group overall are unusually low. In certain occupational groups the unsatisfactory distribution of educational levels is even more striking. For example, only four per cent of the officers in the Program Administration group hold a university degree.

Educational levels will undoubtedly have to be raised. This can be achieved by recruiting university graduates for lower echelon



AGE DISTRIBUTION OF OFFICERS

at and above the program administration 3 level and its equivalent



positions, and proven executives with a substantial education background for the more senior positions.

Age Distribution

Of the executives in all occupational categories, 55 per cent are over 50 years of age, 32 per cent are in the age range 40 to 49, and only 13 per cent are under 40 years of age. This represents an exceptionally heavy concentration of managerial personnel in the older age groups and a situation that demands close and continuing scrutiny.

Illustrated in the chart opposite is the age distribution in all occupational groups. The age distribution in Program Administration, the group of officers essentially responsible for field operations, is particularly unsatisfactory. The heavy concentration of officers in the older age categories is particularly marked. About 68 per cent of the officers are over 50 years of age and 92 per cent are over 45 years of age.

The very limited number of officers in the younger age ranges suggests that the organization could face serious succession problems within the next ten years, as officers in the 50 plus range, approximately 55 per cent of senior personnel, retire.

MANAGEMENT PRACTICES

The postal corporation, if it is to be effective and enjoy the respect of its customers, must be capable of responding quickly and effectively to user needs and requests. When compared with managerial practices

of organizations in the private sector of comparable magnitude in terms of revenue, expenditures, employees, facilities and complexity of operations, the existing management practices in the Department are inappropriate. For the Crown corporation to be effective, changes will be required in the attitude and behaviour of officers at many levels, with greater emphasis on the identification of mail user needs, the exploitation of individual initiative, and a continuing search for opportunities available for cost reduction and generation of revenue.

The majority of studies conducted by firms of management consultants have identified many areas where efficiency can be improved and earnings generated. Particular problems have been identified as existing in:

- the way in which managerial staff perceive and relate to social, economic and technological change in the environment
- attitudes towards change and improvement, and the ability of managers to deal with change
- the manner in which managerial staff relate to their total market, the users of communication services
- the approaches and techniques being used to improve productivity, quality, reliability and service
- the understanding and application of the management process, particularly the establishment of objectives, planning for the utilization of resources, utilization of functional and technological skills, direction, control and performance evaluation
- communications between managers, between management and the work force and between the organization and the market.

Executives in the corporation must ensure that a proper management perspective is developed, and recognize that the role of the Post Office is to provide a communications service that is relevant in terms of community needs.

Working within
the Public Service

Departmental management practices have been influenced to a marked degree by the practices in the public service.

Officers in the Department believe that the organization's freedom to react in a positive manner to its environment is limited by the regulatory and control functions of other agencies and departments of Government.

On the other hand, postal officers could, if so motivated, have exercised greater managerial initiative and exerted greater pressure on the departments and agencies of Government within the existing framework. However, the continued exercise of managerial initiative would, within the existing control agency framework, be taxing in the extreme and would exhaust the endurance of even the most persevering of executives.

The Service and
the Servants

The Government system, and the role of individual departments, has developed over the years and has been successful in assigning specific roles and responsibilities to particular departments or agencies. This approach is intended to optimize the performance of individual depart-

ments and minimize waste and duplication of effort throughout Government. Conceptually, the approach is sound. It is reasonable to conclude that management attitudes and the levels of competence are consistent with the objectives of the public service. A public servant is motivated by service to the country and his role within the system by which he carries out prescribed activities and responsibilities. The commercial and competitive nature of the business world is alien to his thinking.

The "system" selects, hires, trains, monitors and comments on the performance of the public servant up to the most senior level. With few exceptions, senior personnel in the public service are career Government employees and their working experience, training and motivation are public-service oriented.

Role of Management - Comparison to Industry

The Post Office is a department of Government that can be related closely to a commercial business enterprise. The roles of people in the Post Office can be compared to like activities in industry and it could be concluded that those in the Post Office are not as efficient by comparison to their counterparts in industry. Recognizing the various influences and constraints that affect the operations of the Post Office, we feel that the Post Office administrators are doing an admirable job and should be commended for their efforts.

In the public service, it is virtually mandatory that critical problems be examined by a variety of groups both inside and outside a given



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department, so that a course of action can be developed and decided on by consensus. There is merit to this approach but it does not encourage officials to look for and accept responsibility. This situation is the antithesis of the business environment in North America. Considerable discussion has taken place as to the desirability and viability of the Post Office operating in a commercial environment and with commercial attitudes. Unless senior personnel are commercially and competitively oriented, the Crown corporation concept, while theoretically sound, is impractical.

Management Orientation and
the Role of the Post Office

Officers have generally not been sufficiently alert to, or have failed to react to, environmental change. For example, they do not appear to have recognized that with the development of other communications media, the speed with which mail is transmitted between points is less important than the reliability and consistency of service. Changes and trends in the social, economic and technological environment have not been continuously and systematically reviewed by officers at all levels. Trends and events have often not been anticipated sufficiently far in advance, thus frequently hindering proper planning for the situations that the Department has been required to face. Many of the problems now facing the postal system could have been avoided had a more flexible and innovative posture been adopted in the past.

Change has been introduced slowly, partly because of the public service regulations and systems, partly because of the departmental organization and systems, but primarily because management have not been sufficiently oriented or motivated towards change.

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Marketing Orientation

Officers in the Department lack the marketing orientation essential for an efficient service. They see the market as users of mail rather than of communications, transportation and banking services. The services that the Department is permitted to provide under the Post Office Act have been interpreted precisely and have been offered in an administrative and unimaginative manner.

Productivity and Quality

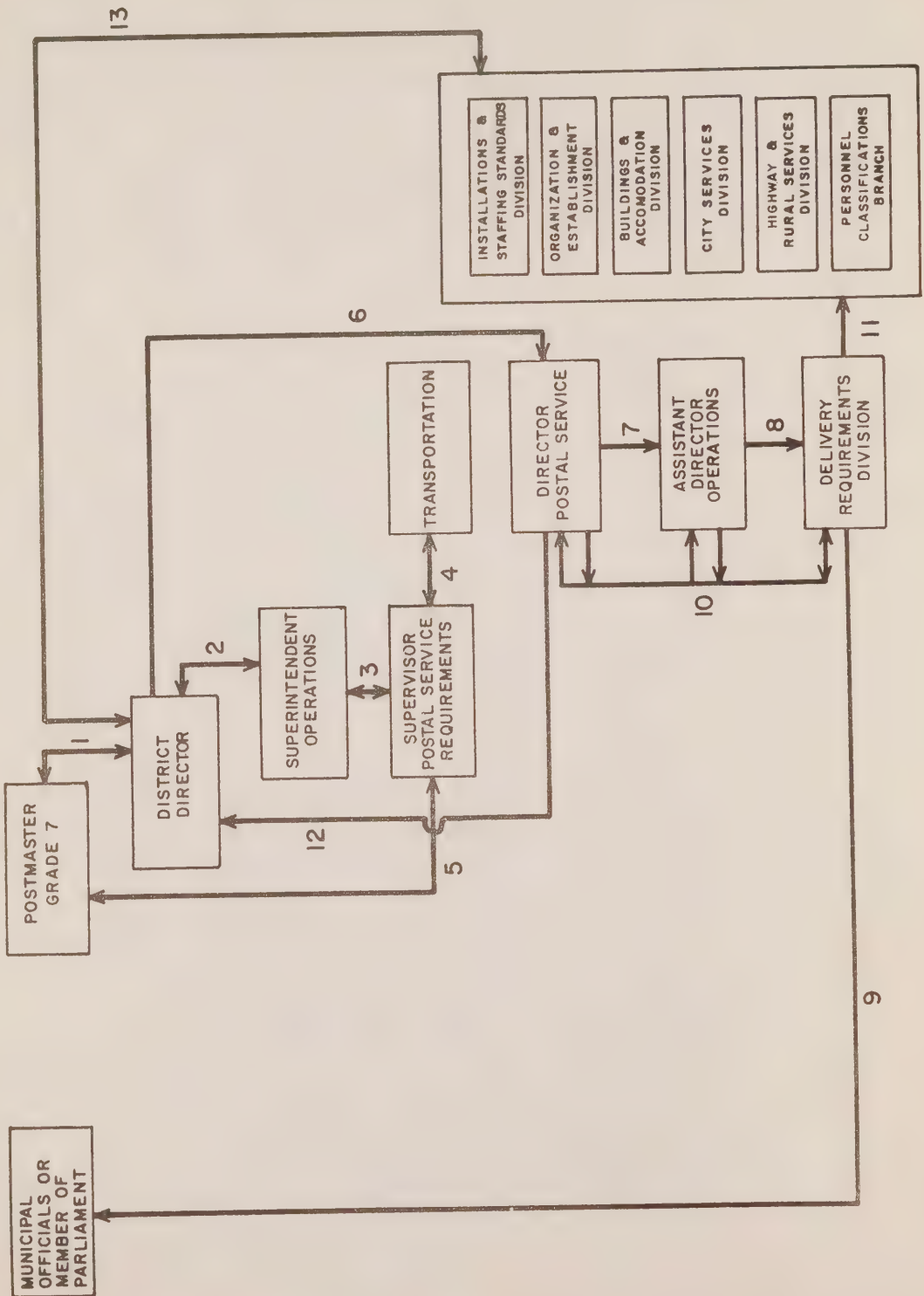
The operations of postal systems are typically manpower intensive. The Department has been faced with rapidly increasing manpower costs and falling productivity. The Productivity Study indicates clearly that substantial productivity improvement is possible. The degree to which quality and reliability of service have deteriorated has been sufficient to generate a general criticism of the Post Office from the public. Opportunities exist for improvements now and have existed for some time, but progress has been very slow.

In the Department, insufficient attention has been given and inadequate resources have been applied to improvement in productivity and quality. Particular attention has not been given to:

- mechanization of operations
- elimination of unnecessary or superfluous procedures
- utilization of time
- reduction of staff
- utilization of equipment and space.



Steps required for approval to establish a new letter carrier service



The Management Process

Authority is highly centralized. Postmasters have little freedom to make decisions or implement change without reference to District Officers. District Directors are required and fully expect to refer even minor matters to Headquarters for approval before taking action. This includes purchases exceeding \$10.00 on First Aid supplies and \$50.00 on the repair of furniture and furnishings except in emergency cases. As an illustrative example, the steps required for approval to establish a new letter carrier service in accordance with established criteria are shown opposite.

The highly centralized authority in the Department has had a significant and far-reaching impact on the management process. The result is that throughout the Post Office managers lack essential skills in many of the following aspects of the management process:

- the definition of the role and purpose of the organizational components for which they are responsible within the defined objectives and philosophy of the Department overall
- systematic analysis of all factors likely to have an impact on their area of activity, which may indicate the need for action and may affect action being taken
- the objective definition of opportunities that are available and the need for action
- definition of the objectives of the organizational component within the framework of departmental objectives in specific and quantitative terms
- development of action plans that will ensure the attainment of objectives and the optimum utilization of resources

- techniques for monitoring the program of action to ensure that it is proceeding in accordance with plans, and for modifying the program in accordance with changing circumstances and conditions
- techniques for objectively reviewing performance in order to improve the development of future programs and to hold management accountable.

Proposed changes in organizational structure and management systems should result in substantial delegation of authority to operating management on a progressive basis. Managers both at Headquarters and in the field will have to be properly prepared for the authority that will be delegated. While training and development action will certainly help to prepare field officers, success will depend on the quality of leadership demonstrated by top management.

Communications

Communications lack the quality, completeness and consistency that are essential between:

- the Department and the users of the mail service
- different levels of management and different organizational components
- management and the unions.

Communications generally pay little regard to the information requirements of the addressees and considerable reliance has been placed on administrative directives. The grapevine communicates and distorts important executive decisions. The poor quality of communications has given rise to continuing problems including poor co-ordination of effort, conflicting decisions, misunderstandings, confusion and frustration.

THE SCHOOL OF THE FUTURE

The school of the future will be a place where the child is not only taught to read and write, but also to think and to create. It will be a place where the child is not only taught to follow rules, but also to understand the reasons behind them. It will be a place where the child is not only taught to work, but also to play. It will be a place where the child is not only taught to learn, but also to grow.

The school of the future will be a place where the child is not only taught to be a good citizen, but also to be a good person. It will be a place where the child is not only taught to be a good student, but also to be a good friend. It will be a place where the child is not only taught to be a good worker, but also to be a good leader.

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An organization of the size and complexity of the Post Office demands the ultimate in effective communications. Without this it will be impossible for top management to implement the urgently needed organizational and systems changes.

Chapter 2

THE TRANSFORMATION OF MANAGEMENT

A transition to Crown corporation status and improvement of operating performance will place enormous pressure and demands on key executives during the next two to three years. The quality of the senior management group is by far the most significant consideration before the Post Office today. The resolute dedication towards solving the Post Office dilemma must prevail throughout the Post Office and is most certainly a prerequisite from those few who direct its overall activities.

The onus of resolving the critical situation facing the Post Office, from the standpoint of management, rests on the shoulders of few people. These are the people now occupying the key positions in the Department. With this small group of dedicated men convinced of the wisdom and the need for infusion of new talent, this program and others have a good chance of success. Considerable effort must be directed towards achieving this state of mind and real understanding before any significant changes are undertaken. If, as a first step, the Post Office is successful in re-equipping itself with top-level commercially-oriented management personnel to allow for a much needed blend of postal career personnel with new functional expertise not previously available in the Department, we believe that the remainder of organizational change can be undertaken with considerable confidence.

Implementing major organizational change strains the very fibres

THE HISTORY OF THE CITY OF BOSTON

FROM THE FIRST SETTLEMENT
TO THE PRESENT TIME
BY
JOSEPH NEALE, ESQ.
OF THE BARR

LONDON:
Printed by J. NEALE, at the
PRINTING OFFICE, in Pall-mall.
1790.

of an organization. Invariably, concern exists as to the welfare of incumbent personnel and the impact which the introduction of new personnel will have on the overall organization. It is difficult for incumbents in senior positions to examine change in the sense of what is best for the organization, particularly when such change may directly influence their own positions or those of their immediate subordinates.

Competent people in the existing organization must be used to maximum advantage both during the transition and in the on-going program. In general, those responsible for the management of the Post Office today are capable of assuming positions requiring heavy responsibilities in the future and have a major part to play in the operation of the Post Office as a Crown corporation.

IMPROVING MANAGERIAL RESOURCES

Aggressive and imaginative action must be taken in order to improve the managerial resources of the Department in preparation for the implementation of sophisticated operating systems, comprehensive organization changes and the establishment of a Crown corporation. The improvement process must be judiciously directed in order to ensure that the organization operates in an acceptable manner. Considerable attention must be given to the reaction of individual officers to some of the steps that will have to be taken, and to the overall levels of motivation and morale in the Department. The improvement process will contain many areas of extreme sensitivity and great care, possibly using outside assistance, will be necessary to guide the overall program and to advise senior

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that proper record-keeping is essential for the transparency and accountability of the organization. This section also outlines the various methods used to collect and analyze data, ensuring that the information is reliable and up-to-date.

2. The second part of the document focuses on the implementation of the proposed changes. It details the steps involved in the process, from the initial planning stage to the final execution. This section also addresses the potential challenges that may arise during the implementation phase and provides strategies to overcome them.

3. The third part of the document discusses the expected outcomes of the proposed changes. It outlines the benefits that the organization can expect to realize, such as improved efficiency, reduced costs, and enhanced customer satisfaction. This section also provides a timeline for the implementation of the changes, allowing the organization to plan accordingly.

4. The fourth part of the document discusses the role of the various departments in the organization. It outlines the responsibilities of each department and how they will work together to achieve the organization's goals. This section also provides a detailed description of the organizational structure, including the reporting lines and the flow of information.

5. The fifth part of the document discusses the financial aspects of the proposed changes. It outlines the estimated costs of the implementation and the expected revenue generated by the new system. This section also provides a detailed description of the financial controls and the methods used to monitor the organization's financial performance.

6. The sixth part of the document discusses the legal and regulatory requirements that the organization must comply with. It outlines the various laws and regulations that apply to the organization's operations and provides a detailed description of the measures taken to ensure compliance. This section also provides a detailed description of the legal and regulatory framework that governs the organization's operations.

officers on the many demanding selection, promotion, transfer, demotion and termination decisions that will have to be made.

Specific action required includes the following:

1. Strengthen the existing Headquarters organization and assemble a group of executives capable of forming the nucleus of a dynamic regional organization. Proven executives should be recruited from both the public and the private sectors.
2. Maintain close surveillance on the performance of officers in the senior echelons in the Department to determine their suitability for appointment to key positions in a revised organization structure or a Crown corporation. The surveillance should be maintained by the individual's own superiors assisted by senior officers in Treasury Board Secretariat and the Public Service Commission, advised by consultants with experience in the functional areas for which the officers are responsible. The senior echelons for the purposes of this surveillance would include:
 - Assistant Deputy Ministers
 - Branch Directors
 - Assistant Branch Directors
 - District Directors
 - Postmasters of Autonomous post offices
 - all officers introduced to the Department as a result of step 1 above.

The review of performance would have to be made in terms of changing position requirements and expressed in quantitative terms.

3. Carry out a planned rotation of selected officers to broaden their understanding of modern management techniques and to increase the functional expertise that is required to improve overall organization performance.

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY

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4. Increase vigilance over all promotional decisions and upgrade selection criteria to ensure that only individuals with required skills and performance capabilities are selected for appointment. In this regard, particular attention should be given to the changing and more demanding position requirements that will follow from the implementation of proposed organization and systems changes.
5. Implement an aggressive recruiting program to attract executives from the private sector for appointment to positions in the program administration group, particularly postmasters. Individuals recruited should have experience in industrial engineering, transportation and traffic, production control, and distribution.
6. Aggressively recruit graduates from universities, technical institutes and community colleges. Particular attention should be given to attracting graduates with engineering, business administration, financial and sales orientations.
7. Introduce practical management development programs which will expose managers to the managerial concepts being applied in the private sector.
8. Assign a high priority to improvement of the manpower planning process in order to collect meaningful data on managerial requirements and capabilities.

Obtaining competent personnel for the Post Office is a formidable task in today's environment. Prerequisites to attracting top calibre executives with proven experience are competitive salaries, freedom of action within agreed policies, budgeting controls and clearly defined objectives and goals, and possibly most important of all, the full support of a board of directors.

IMPROVING MANAGEMENT PRACTICE

The Department will be unable to operate effectively on a continuing basis unless fundamental and far-reaching changes in managerial

attitudes and practices are effected. The key will be the quality of a small group of senior management executives to direct the operational and planning processes of the Post Office. Management talent must be injected and executives given freedom to operate efficiently. As previously mentioned, wholesale changes in the managerial ranks by the infusion of persons from the private sector are neither desirable nor feasible. The change must be made essentially from within, supplemented by the introduction of a key group of executives.

The task of changing managerial practices must be approached from many different angles simultaneously. The key will be leadership supported by formal training. It will be a demanding task requiring imagination and creativity. It will take time to produce meaningful results. The task of effecting change will demand a substantial investment in formal training and development effort, and requires the introduction of a comprehensive improvement program. Such a program will incorporate many complex and interrelated steps:

1. Top management must establish the ground rules and provide the leadership.
2. Superiors and subordinates should work closely together to establish objectives for their areas of activity within the framework of corporate objectives. They must agree on the management approach and action required for the achievement of objectives.
3. A continuing and critical examination of management practices must be conducted.
4. Managers must come to understand and then utilize the management practices followed in industry rather than those adopted in Government.

5. Some managers should be assigned to public-spirited organizations in the private sector in order to gain the required exposure to commercially-oriented practices.
6. Executives should be borrowed from the private sector to work with executives in the organization and impart their managerial expertise.
7. Management staff should be selectively rotated through a number of positions in order to broaden their understanding of the operations of the organization overall.
8. Criteria for recruiting executives must be critically examined and upgraded.

Improvement in practices will take time to accomplish. The degree of improvement will depend on the competence, leadership and dedication of top management.

The accelerated action required to improve management practices has already started. Establishment of the task force to examine the feasibility of a Crown corporation and changes in key high level positions are already bringing about change in managerial attitudes at the senior level.

COMMITMENT TO THE CROWN
CORPORATION PRINCIPLE

We have concluded that to provide an environment which would attract, and indeed is a requirement to obtaining, senior management personnel, the Government must give a commitment to the Crown corporation concept. To permit this, an understanding of the scope and magnitude of today's difficulties, coupled with the clear definition of the objectives of the Post Office over the next 10 to 15 years, is vital.

The first part of the paper discusses the importance of the study. It highlights the need for a comprehensive understanding of the subject matter. The second part of the paper presents the methodology used in the study. It describes the data collection process and the analysis techniques. The third part of the paper discusses the results of the study. It presents the findings and discusses their implications. The fourth part of the paper discusses the conclusions of the study. It summarizes the main findings and provides recommendations for future research.

The study was conducted using a mixed-methods approach. It involved both quantitative and qualitative data collection. The quantitative data was collected through a survey of 100 participants. The qualitative data was collected through interviews with 10 participants. The data was analyzed using statistical software and thematic analysis. The results of the study show that there is a significant relationship between the variables studied. The findings suggest that the study has important implications for the field. The conclusions of the study are that the study was successful in achieving its objectives and that there are several areas for future research.

The study was conducted in a controlled environment. It involved a series of experiments and observations. The data was collected over a period of six months. The results of the study show that there is a significant relationship between the variables studied. The findings suggest that the study has important implications for the field. The conclusions of the study are that the study was successful in achieving its objectives and that there are several areas for future research.

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The traditional Government system, as it applies to the Post Office, drastically hampers the Post Office's ability to attract top calibre executives. If they can be attracted, as has been the occasional case, it does not give them adequate freedom and authority to operate in a manner comparable to that of commercial enterprises and therefore they cannot perform their duties at a reasonable level of efficiency.

We have concluded that the Government must consider indicating a commitment to Crown corporation status for the Post Office with a possible target for vesting in the order of two years. It should do away with the constraints imposed on the acquisition of personnel from the private sector at both the intermediate and senior executive levels, allow for flexibility in dealing with employees, particularly where productivity and service are paramount considerations, and permit considerable flexibility in the areas of working facilities and use of equipment both for transporting and for processing mail. Failure to do this will severely inhibit the recruiting of competent personnel and, therefore, the resolution of problems facing the Post Office. The energies and resources and the co-operation of other Government departments must be directed towards upgrading the Post Office without reservation.

A task of immense proportions exists to:

1. Modernize plant and equipment and improve postal services.
2. Develop confidence on the part of the public in the postal system.
3. Effect a transition to a Crown corporation.

The first part of the paper discusses the importance of the research and the objectives of the study. It also provides a brief overview of the methodology used in the study.

The second part of the paper presents the results of the study. It discusses the findings of the research and compares them with the existing literature. The results show that there is a significant difference between the two groups of subjects.

The third part of the paper discusses the implications of the findings and provides some suggestions for future research. It also concludes the paper by summarizing the main points of the study.

To reiterate, one cannot solve the ills of the Post Office without effective management. One cannot obtain the proper calibre of management without the Government's stated intention of constituting the Post Office as a Crown corporation. One cannot seriously consider the Post Office becoming a Crown corporation unless effective management is in place and progress towards resolving current problems is evident. To attempt a compromise solution whereby all of these factors are not realistically appreciated, will only serve to aggravate the overall situation. The fullest co-operation from all elements of Government will be required if the Post Office is to be rescued from its predicament within a reasonable period of time.

Chapter 3

THE POST OFFICE AS A CROWN CORPORATION

If the concept of the Canada Post Office as a Crown corporation is approved, legislation enabling the Post Office to be constituted as a Crown corporation must be drafted in a manner that will provide for effective Parliamentary control over postal policy, while at the same time providing the managerial freedom required for a responsible and efficient postal system. While the act of incorporation would set forth the basic objectives and guidelines of operation, it must nevertheless be recognized that the extent of Parliamentary control and the independence afforded to proprietary corporations depend to a degree on factors not definable in legislation. These factors include the:

- calibre of the responsible Minister and his interest in the corporation's affairs
- competence and commitment of the Board of Directors
- calibre of corporate management and the manner in which it optimizes resources and seizes opportunities
- degree to which the corporation can operate without Parliamentary appropriations
- degree to which the corporation's plans may involve long-term financial commitments.

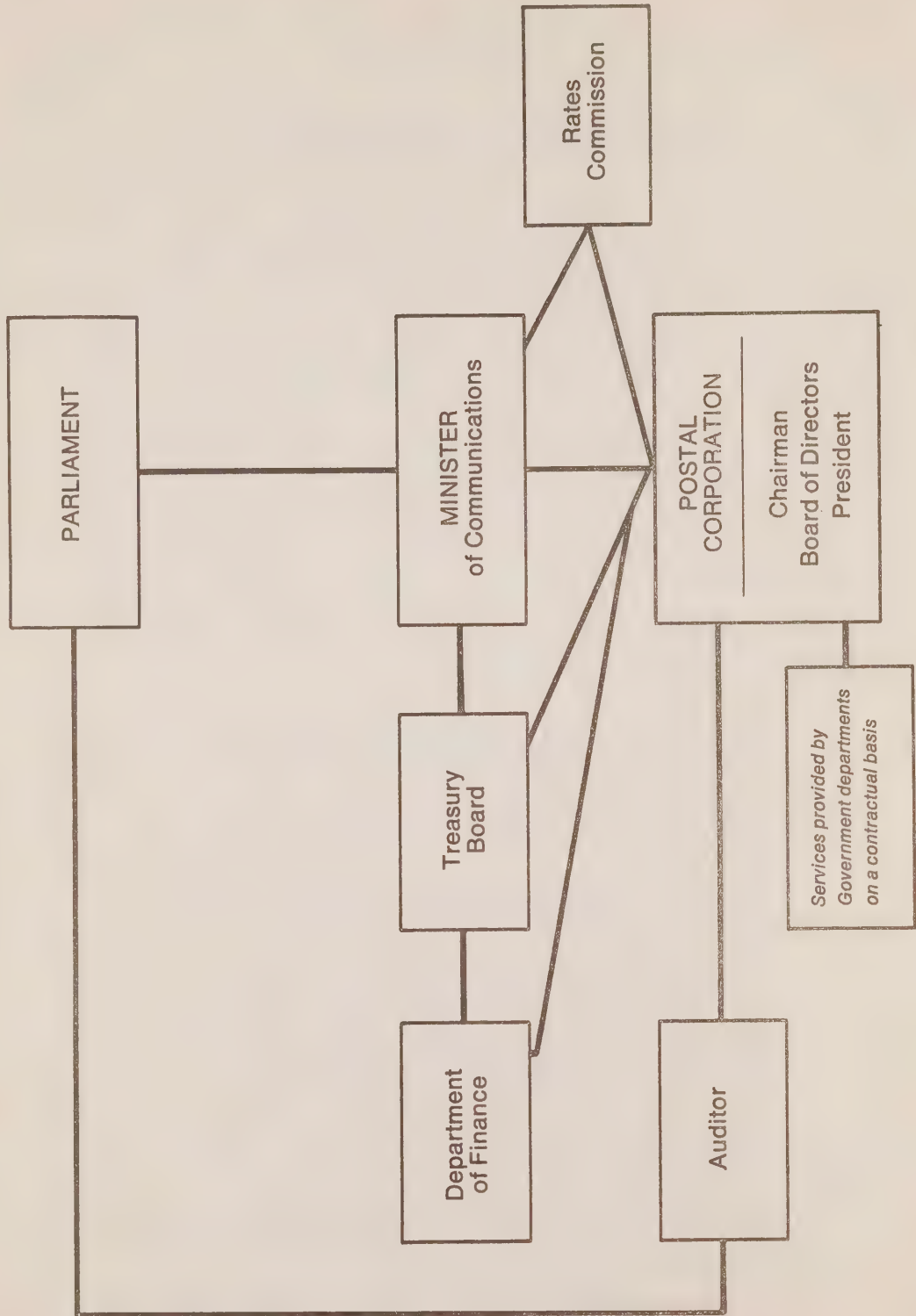
DRAFTING THE LEGISLATION

Considerable care must be taken in drafting the legislation to



Key Governmental relationships for the Post Office as a Crown Corporation

KEY GOVERNMENTAL RELATIONSHIPS



ensure that the organizational entity created will have broad powers to operate independently but within the overriding framework of Government policy. Corporate management would be required to operate the Post Office on a commercial basis, but in accord with national communications policy and subject to Treasury Board and Department of Finance scrutiny of budgets and accounts. This would ensure that Parliament had overall control of the corporation.

The pattern of key relationships envisaged for the Post Office as a Crown corporation is illustrated opposite. This should assure effective Parliamentary control over policy, while at the same time providing operational freedom and flexibility.

Particular care must be taken in drafting legislative provisions relating to:

1. Policy, objects and powers.
2. Board of Directors.
3. Management.
4. Financial structure, authorities and reporting.
5. Contractual authority.
6. Manpower management.
7. Relations with the departments and agencies of Government.
8. Rates and regulatory process.

Most of the legislative provisions could follow the precedent established in the more recent legislation relating to Crown corporations.

POLICY, OBJECTS AND POWERS

The enabling legislation should set forth broad guidelines for the establishment of postal policy within the framework of national communications policy. The legislation must foster a flexible approach which will enable the corporation to be relevant in terms of time. Matters to be considered include:

- the role of the postal service in the cultural, political, social and economic fabric of Canada
- the basic mail service to be provided for the people of Canada, criteria and guidelines for expansion of the basic mail service
- the need for a flexible, responsive and efficient organization that will identify postal user needs and respond to those needs in a meaningful manner
- the approach to be followed on rates and classifications and the relationship that must be maintained between earnings and operating and capital expenditures
- the need for subsidies and the handling of subsidies from appropriations
- the extent to which private enterprise may be permitted to compete with the postal system
- the extent and manner in which the Post Office may compete with private enterprise.

The objects and powers of the corporation should be defined in the broadest possible terms, within the framework of postal policy, to permit management the flexibility required to deal with user needs and to provide the best possible service.

THE BOARD OF DIRECTORS

Role of the Board

The Board would represent the interests of the Government and would ensure that the corporation's objectives and operations accord with public needs. Efficient postal communication is a vital part of the nation's economic system, and calls for dynamic policies and direction.

The Board would establish overall corporate policy for corporate management. It would review and approve broad corporate, financial, manpower and operating plans including the capital and operating budgets which would be formally submitted to the responsible Minister, the Minister of Finance and the President of the Treasury Board by the Chairman of the corporation.

Composition of the Board

The Board must be representative of the markets the Post Office serves. If the corporation is to effectively understand the needs of those markets and to provide services that will satisfy those needs, the Board must consist of individuals with an established reputation for managerial achievement. Legislation should be drafted in a manner that will ensure the appointment of a working Board and the selection of individuals with managerial competence.

All directors with the exception of the Chairman would be appointed by the Governor in Council. A number of directors would be selected from nominees suggested by major representative associations in Canada concerned with the mail service.

The Board could comprise:

1. A Chairman.
2. The responsible Minister.
3. A Minister with a portfolio such as Corporate and Consumer Affairs.
4. A representative of commerce and industry.
5. A representative of organized labour.
6. A representative of the major mail users, such as bulk mailers.
7. A representative of agricultural and rural interests.
8. A representative of urban interests.
9. A representative of consumer interests.

Tenure of Office

All directors with exception of the Chairman and the two directors holding ministerial portfolios would be appointed for terms of three years. The directors with ministerial portfolios would hold office as directors for as long as they are Ministers of the Crown. The Chairman would be appointed for a term of seven years.

The Chairman would be eligible for re-appointment. The outside directors would not be eligible after two consecutive terms except for appointment as Chairman.

The Chairman

The office of Chairman would be filled by a full-time executive elected by the Board of Directors subject to the approval of the Governor in

Council. The Chairman may be removed from office by the Board. He would be the chief executive officer of the corporation, concerned with determining general policy and ensuring a high level of corporate performance.

The President

Provision should be made in the legislation for the appointment of a President who would be directly responsible to the Chairman for the management of the affairs of the corporation.

MINISTERIAL RESPONSIBILITY

Ministerial responsibility for the corporation should rest with the Minister of Communications so that he can co-ordinate its role with the Department of Communications.

He would acquaint the Board of Directors with the broad Government policy requirements within which the corporation would set its objectives.

The Board should present the annual budgets to him for his approval, and for his discussion with the President of the Treasury Board and the Minister of Finance, and make its annual report to him with the accounts.

The Minister would lay before Parliament the annual budgets, the annual accounts and the report of the directors, and would answer in Parliament for the affairs of the corporation.

FINANCIAL STRUCTURE, AUTHORITIES AND REPORTING

Legislation should define the financial structure and should deal



with matters relating to the financing of the corporation and financial authorities, specifically:

- capital structure
- borrowing
- investments
- banking
- approval of capital and operating budgets
- contractual authority, including leasing.

The proposed financial structure is discussed in depth in Chapter 5.

REPORTING ON POST OFFICE OPERATIONS AND PLANS

The corporation would be required to prepare the normal statements of operations and Balance Sheet as prescribed by the Canada Corporations Act. Such financial statements would be subject to audit.

In addition to the prescribed financial reporting requirements, the corporation would be required to report on its operations and future plans for at least a five-year period. The report should be oriented to program and management review, with emphasis on goals, improvement programs, research projects, long-range developments affecting the corporation, and results produced by completed, cancelled or current programs.

In the future operations of the corporation, capital expenditures may be extensive and assume ever-increasing importance in view of



[The text in this section is extremely faint and illegible. It appears to be a multi-paragraph document, possibly a letter or a report, with several lines of text visible across the middle of the page.]



its labour-intensive operations. Therefore, short- and long-term (one and five years respectively) capital budgets should be submitted to the Government for review. Complementary to the capital budget, an operating budget for the same periods should be submitted.

RELATIONSHIPS WITH DEPARTMENTS AND AGENCIES OF GOVERNMENT

The Post Office as a department makes extensive use of both common and unique services made available by Government departments, agencies and Crown corporations. The Post Office, in many cases, is required by legislation or regulation to use these services, but in some, it is a matter of choice and mutual agreement between the Post Office and the department, agency or Crown corporation concerned.

In order to provide management of the corporation with the freedom and flexibility necessary to operate the postal system, the existing pattern of interservice relationships must be fundamentally changed. As a Crown corporation, the Post Office should be free to decide just which services it requires and to negotiate with the departments and agencies for the services required. The corporation would, in essence, contract with departments and agencies for the services required. It should relate to those organizations in just the same way as any corporate entity in the private sector.

RATES AND THE REGULATORY PROCESS

The corporation should be free from the present requirement for

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legislation to change certain postal rates. The corporation should develop a rate structure and individual rates which will generate earnings in excess of costs of providing services to the public.

The monopolistic character of the postal system requires the establishment of some mechanism for regulating postal rates in the public interest. A number of different approaches are available but we believe that the most practical will be one where the rate structure and rates for essential services would be subject to the scrutiny and approval of a regulatory body. This body would have two major concerns:

- to ensure that the rates are reasonable in terms of the earnings of the corporation
- to recommend to the Minister of Communications that, where commercially priced services appear to be unreasonably costly for certain segments of the community, these services be subsidized by the Government, discontinued or alternative services considered.

The corporation should recognize two major factors in effective rate setting:

1. The cost of providing service must be ascertained. Not only must the cost of operating a service at a given level be known, but the characteristics of costs must also be identified. It is important in setting rates to know whether the unit cost of providing a service is likely to fluctuate with changes in volume.
2. The value of service in the estimation of the public will affect the extent to which a service is used at a given rate. This in turn will determine the total revenue generated by the service. The corporation must gain an appreciation of the public's valuation of its services.

Rates for essential national and international services and all services where the Post Office holds a monopoly would be subject to the scrutiny of the regulatory body.

Rates Regulation Commission

A commission should be established to regulate the rates of the corporation. It would be responsible to Parliament through the Minister of Communications, and there should be the right of appeal to the Minister against its decisions.

The commission should develop principles and ensure that they are adhered to by the corporation in setting rates. Such principles might rule that:

- rates must be just and reasonable
- there should be no unjust discrimination between patrons requiring similar services in similar situations
- monopoly situations, where they exist, should not be exploited.

The commission would require the corporation to:

- file all rates for regulated services
- submit regular returns of the costs and revenues of these services
- allow staff of the commission to examine accounting records.

Subsequent to the official filing of rates, the public should have the right to intervene with submissions; the commission would conduct hearings.

The first part of the paper discusses the importance of maintaining accurate records of all transactions. This is essential for ensuring the integrity of the financial system and for providing a clear audit trail. The second part of the paper focuses on the role of the auditor in verifying the accuracy of the records and in providing an independent opinion on the financial statements.

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Subsidized Services

When the corporation is required to provide, as a public duty, services at rates which are less than the costs incurred, it should have the right to apply for subsidies from the Government. The rates commission should deal with these applications on behalf of the Minister of Communications.

Applications for subsidized services would be made to the commission either by the corporation or by interested parties. The commission must consider these by conducting inquiries into the need for the services and the reasons why they cannot be provided by the corporation at an acceptable rate. It should:

- devise procedures for handling applications
- develop criteria for assessing public need
- determine standards of admissible costs which the corporation could charge in its applications.

These criteria and standards should be developed in line with decisions of the Minister who is accountable to Parliament for them. The commission would make recommendations to the Minister; when approved, the funds required to pay these subsidies would be included in the estimates of the rates tribunal and voted annually by Parliament.

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DEFICITS HISTORY & FORECASTS

	YEARS	REVENUE	EXPENDITURES	DEFICITS
		(IN MILLIONS OF DOLLARS)		
<u>HISTORY</u>	1965/66	281	315	34
	1966/67	305	353	48
	1967/68	337	404	67
	1968/69	375	463	88
	1969/70	481	527	46
<u>FORECASTS</u>	1970/71	490	544	54
	1971/72	500	575	75
	1972/73	520	630	110
	1973/74	540	685	145
	1974/75	550	750	200
	1975/76	570	810	240

Chapter 4

FORECASTING EXPENDITURES AND REVENUES

Establishment of a Crown corporation, and the managerial flexibility that it will afford, should result in significant improvement in postal services and substantial cost reductions. Nevertheless, the mail users of Canada will be faced with a series of inevitable rate increases if postal deficits are to be avoided. Postal deficits which have been met from Parliamentary appropriations have occurred annually since 1965/66, and on the basis of the present rate structure have been projected to 1973-74 and beyond. Deficits history and projections are illustrated opposite.

In order to forecast the pattern of rates and rate adjustments that can be expected in the future, Post Office expenditures and the rates which would be required to cover them were forecast for a 25-year period ending 1995-96.

In developing the 25-year forecast, it was recognized that long-range forecasts must be interpreted with caution. Their accuracy diminishes in direct proportion to the length of the forecast and the longer the period, the less reliable will be the forecast for the years at the end of the forecast period. Nevertheless, we believe that a long-range forecast was vital for the formulation of a rating strategy and a guide for financial planning.

Any forecast for so large a time horizon and which has to take

THEORY OF THE EARTH

The theory of the earth is a branch of geology which deals with the origin and development of the earth and its various parts.

It is a science which seeks to explain the causes of the various geological phenomena which we observe in nature.

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into account a large number of variables can, at best, be only a guide to the possible course of events. The results of the forecast should be regarded only as a projection of the potential profitability if economic and social conditions continue along the general trend of the last number of years, with allowances for some changes that are predicted with a high degree of certainty, such as the chequeless society.

The forecast of expenditures may overestimate rather than underestimate. This occurs because it does not take into account improved management practices or the technological breakthroughs that may occur in the handling of mail. Improved management will reduce administrative costs on the one hand and should also increase postal productivity on the other.

The forecast is based on the mix of the services the Post Office offers at present. Additional services that the Post Office may provide in the future were not included because of the lack of historic data for analysis.

No existing services were excluded. There are some services which the Post Office may discontinue. They are minor, for example, unemployment insurance stamps. The net effect on the profitability of discontinuing these services is the difference between their marginal cost and their revenues. This difference is so small that an analysis of their marginal cost was not warranted, particularly in view of the reliability that can be expected in a profitability forecast which spans a quarter century.

The forecast of expenditures and revenues, based on only the

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mix of present services, is conservative if it is assumed that new services would be added and some existing ones discontinued in order to increase the revenues and decrease the expenditures of the Post Office.

The approach adopted for the development of the 25-year forecast essentially consisted of the following steps:

1. Forecasting of mail volumes based upon forecast data provided by the Post Office.
2. Forecasting of expenditures, taking into account savings that might result from the Crown corporation studies.
3. Forecasting of the revenues that would be produced from different mail rates.
4. Calculation of the extent of the subsidies that might be sought for the provision of services to the northern areas and for second class mail.

The approach and results obtained are discussed in detail in Appendix A.

A significant increase in mail volumes is likely to occur. In 1967-68 the actual mail volumes were 5,000 million pieces. The forecast of mail volumes indicates that they will rise as follows:

Year	Mail Volume (in millions of pieces)
1975-76	6,400
1985-86	7,000
1995-96	9,500

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes the need for transparency and accountability in financial reporting.

2. The second part of the document outlines the various methods and techniques used to collect and analyze data. It includes a detailed description of the experimental procedures and the statistical analysis performed.

3. The third part of the document presents the results of the study. It includes a series of tables and graphs that illustrate the findings of the research.

4. The fourth part of the document discusses the implications of the findings and the potential applications of the research. It highlights the need for further research in this area and provides recommendations for future studies.

5. The fifth part of the document is a conclusion that summarizes the main points of the study and reiterates the importance of the findings.

6. The sixth part of the document is a list of references that includes all the sources cited in the text.

7. The seventh part of the document is an appendix that contains additional information related to the study, such as raw data and supplementary figures.

8. The eighth part of the document is a glossary that defines the key terms and concepts used in the study.

9. The ninth part of the document is a list of figures and tables that provides a visual summary of the data presented in the study.

10. The tenth part of the document is a list of abbreviations that defines the acronyms and symbols used in the text.

11. The eleventh part of the document is a list of acknowledgments that thanks the individuals and organizations that provided support and assistance during the course of the study.

12. The twelfth part of the document is a list of appendices that provides a detailed description of the supplementary information included in the study.



FORECAST OF EXPENDITURES AND RATES

\$4 billion

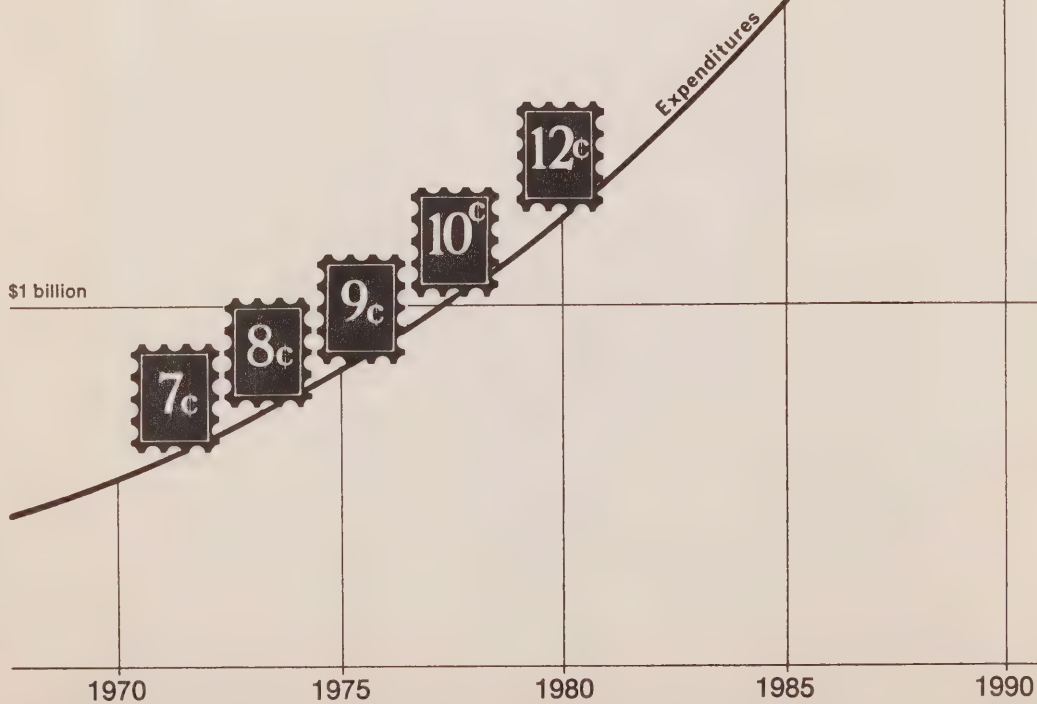
Forecast of 1st class mail rates
required to balance forecast expenditures.

Forecast includes a 3% p.a. factor for inflation
and a 3% p.a. factor for growth in real income.

\$3 billion

\$2 billion

\$1 billion



The forecast developed leads to the inevitable conclusion that postal rates will have to be periodically adjusted in order to produce the revenues required to cover expenditures. In the chart opposite, which is also opposite page 15, we show for the next 25 years expenditures without savings that might be obtained, and postal rates that would be required to generate the required revenue. It is presented for the purpose of indicating patterns which may develop and should not be regarded as a forecast of actual expenditures that would occur or rates that would be required.

Forecasts by definition deal with the future. A number have been prepared and are presented, where appropriate throughout this report, to indicate patterns which may develop. They are based on a series of broad assumptions which by their nature must be tentative.

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY
JANUARY 1950

TO THE HONORABLE CHAIRMAN OF THE BOARD OF TRUSTEES
OF THE UNIVERSITY OF CHICAGO
FROM THE DEPARTMENT OF CHEMISTRY
SUBJECT: REPORT ON THE PROGRESS OF RESEARCH
DURING THE YEAR 1949

The following is a summary of the work done in the Department of Chemistry during the year 1949. The work was carried out under the direction of the Department Chairman, Professor [Name], and the assistance of the following faculty members: [List of names].

Chapter 5

FINANCING A CROWN CORPORATION

Establishment of a Crown corporation will require a major re-orientation of the financial structure of the Post Office. As a corporate entity, the Post Office will require a financial structure that will cover assets currently utilized and will be adequate to meet working capital and future expansion requirements. Such a structure will require the adaptability to meet future changing economic conditions and in a manner that will not impose an impractical financial strain on future operations. Transition from financial management concepts of a Government Department to a corporate financial structure will be a radical departure.

The financing requirements and structure have been examined and are discussed in this chapter. It deals with the form and extent of the base capital structure, working capital requirements and the handling of assets and liabilities. It also deals with surpluses and deficits, borrowing, investments, banking, and pensions.

CRITERIA FOR THE FINANCIAL CORPORATE STRUCTURE

An aim of an effective organization should be the ability to meet its expenditures out of revenues. Revenues should also be at a level to provide a return on the capital required to finance the operating of the Post Office as a Crown corporation. In our opinion, excess revenues should be equivalent to a return that is at least equal to the cost to the Government of borrowing money and for this purpose a rate of eight

THE HISTORY OF THE
CITY OF BOSTON

The city of Boston, situated on a neck of land between the harbor and the bay, has been the seat of government and commerce since the first settlement in 1630. It was the first city in America to have a city government, and it was the first to have a city council. The city has a long and rich history, and it has played a major role in the development of the United States. It was the site of the Boston Tea Party, the Boston Massacre, and the Battle of Boston. It was also the site of the first public school, the first public library, and the first public hospital. The city has a diverse population, and it is known for its education, culture, and industry.

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per cent on capital employed before taxes might be considered. Normally, such a return in respect of shareholders' funds would be calculated after taxes but since in fact the Post Office is an integral part of the public sector, taxes paid reflect a return on the investment.

Dependent upon the ability to adjust to meet expenditures in addition to a provision of a return on capital, it is hoped that dividend payments out of future profits will provide a return on equity investment to the Government of Canada.

We have recognized that the capital structure must be such that future financial requirements may be met in an expedient manner. We have also recognized that management should have increased responsibility and accountability for the financial operations of the Post Office, but within the practical environment of overall Government fiscal and monetary policy.

THE INEVITABILITY OF RATE INCREASES

The financial performance of and forecasts for the Post Office have been reviewed to aid in establishing estimated financing requirements of the Post Office as a Crown corporation.

On the basis of the forecast trends of revenues and expenditures, we have concluded that substantial deficits will be incurred in perpetuity unless appropriate action is taken to effect rate changes. Major changes in rate structures over a period of years will be required to convert the Post Office into a financially viable operation. The pattern of rate changes that may be required is illustrated in the chart opposite Page 67.

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The projected expenditures indicate that by 1979-80 it is anticipated that a base first class mail rate of 12 cents will be required to have a profitable operation, and by 1995 a rate in the range of 25 to 26 cents.

As an autonomous Crown corporation the Post Office may have to meet expenditures out of its revenues for increased responsibilities. The postal rates allowed during the initial years of operation will reflect heavily on its ability to convert to a successful Crown corporation that will meet expenditures out of revenues.

The pattern of rates indicated in the chart opposite Page 67 assumes that there will be no significant reduction in mail volumes due to such rate increases. It is impossible, however, to reliably predict the reaction of the mailing public to increased postal rates over the time period represented in the forecast.

Without the flexibility to enact periodic rate changes in order to meet increasing costs, it would appear impossible for the Post Office to operate at, or slightly above, a breakeven level. If the Post Office, as a Crown corporation, has to be continually supported by funds from Parliament, the desirability of so constituting it becomes questionable.

The President's Commission on Postal Organization in its report of June 1968 observed that "With the exception of Canada, rate-setting in 14 countries" (that is for the 14 postal systems studied by the Commission outside the United States) "is primarily an administrative procedure not a political struggle."

Recognizing the need for a financial corporate structure which will meet present and future changing requirements, we have proposed a simple approach to meeting the capital requirements, namely, that present assets and the required operating working capital be provided for by the issue of common shares.

It is important to recognize that the transition of the Post Office to an autonomous operation will require both time and money. We have recommended that an Improvement Program Fund be established to cover the cost of systems improvements. Anticipated deficits during the transition period could be supported by the Government by various methods such as the issue of subscription shares, meeting of annual deficits by the Government or pre-budgeting the required deficit, financing and meeting it by government appropriation as required.

In our considerations of the capital structure, we were aware that Government policy on land and buildings for Government department or agency use is under review. We are also aware of the difficulties, time and costs that may be required in arriving at equitable values of properties occupied by the Post Office.

In addition to suggesting a base capital structure for the Post Office, we have commented on approaches to the treatment of surpluses or deficits, banking, trust funds and other such items in the operation of the Post Office. Our proposals are directed at enabling the Post Office to operate in much the same manner as an autonomous business enterprise.

ESTIMATED BALANCE SHEET
OF THE POST OFFICE
AS A CROWN CORPORATION
as at April 1, 1971

<u>ASSETS</u>			<u>Without Land and Buildings</u>	<u>With Land and Buildings</u>
			<u>(IN THOUSANDS OF DOLLARS)</u>	
<u>CURRENT ASSETS</u>				
Cash on hand and in transit			28,000	28,000
Cash in bank			27,020	27,020
Inventory:				
- materials			710	710
- supplies			2,130	2,130
Accounts Receivable			100	100
			<u>57,960</u>	<u>57,960</u>
<u>SECURITY DEPOSITS</u>			300	300
<u>TRUST FUNDS</u>				
Post Office Savings Bank	4,500			
Outstanding Money Orders	37,500			
Philatelic Accounts	<u>165</u>		42,165	42,165
<u>FIXED ASSETS</u>			7,255	57,255
<u>DUE FROM GOVERNMENT IMPROVEMENT FUND</u>			100,000	100,000
<u>SUSPENSE ACCOUNTS</u>			480	480
			<u>208,160</u>	<u>258,160</u>
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable			2,250	2,250
Suspense Accounts			350	350
			<u>2,600</u>	<u>2,600</u>
<u>DUE TO RECEIVER GENERAL OF CANADA</u>			28,710	28,710
<u>TRUST ACCOUNTS</u>				
Post Office Savings Bank	4,500			
Money Orders	37,500			
Philatelic Accounts	<u>165</u>		42,165	42,165
<u>CONTRACTS AND POSTAGE GUARANTEES</u>			300	300
<u>BONDS</u>				50,000
<u>IMPROVEMENT FUND</u>			100,000	100,000
<u>NET WORTH</u>				
Common Stock N.P.V.			<u>34,385</u>	<u>34,385</u>
			<u>208,160</u>	<u>258,160</u>

Notes:

1. It is estimated that the liability for past service pension benefits would be in the range of \$300 million. It is assumed that this will be a liability of the Government of Canada.
2. Fixed Assets have been valued at an estimated depreciated replacement value. The value of assets will be affected to the extent that the Post Office takes over assets presently controlled by the departments of Government.
3. Facility improvement plans have not been fully formulated and therefore funds re-quired for future capital expenditures cannot be fully evaluated or indicated.

THE FINANCIAL STRUCTURE

As a basis for establishing the capital requirements and the financial structure of the Post Office as a Crown corporation, the existing financial structure of the Post Office has been reviewed and an estimated balance sheet has been developed for April 1, 1971 on the assumption that a Crown corporation, if established, might be vested on that date. In developing the estimated balance sheet a number of assumptions have been made and particular attention has been given to:

1. Land and buildings (property administered by the Department of Public Works).
2. Furniture and equipment.
3. Inventory of supplies.
4. Pensions.
5. Working capital needs.

The estimated balance sheet developed is illustrated opposite; it also appears opposite Page 19, and is discussed in detail in Appendix B. This estimated balance sheet is provided only for the purpose of presenting, in outline form, a proposed financial structure for the Crown corporation and is not to be regarded as a forecast of the actual financial position at the date specified. It is emphasized that the estimated balance sheets are based on a series of broad assumptions which, by their nature, must be tentative. The estimated balance sheet incorporates provision for:

1. Capital to commence operations of \$25 million represented by issue of common shares.

2. Capitalization of present equity in supplies, furniture and equipment by the issue of common shares to the amount of an estimated \$9,385,000.
3. Land and buildings⁽¹⁾ (dependent on Government policy) taken over at an estimated depreciated replacement value of \$50 million. The extent of takeover by the Post Office of land and buildings cannot be definitely defined at this time. This will require study by the Post Office and applicable Government department; including the determination of fair value.
4. An Improvement Fund for capital expenditure programs resulting from current studies, amounting to an estimated \$100 million.

In addition, provision may be required for financing of the Post Office during a period of transition, when expenditures may exceed revenues. Such a potential situation should be provided for on a pre-budgeted basis and financed by appropriations from Government Funds or the issue of subscription shares of a value equal to the anticipated short-fall in revenues. Such financing could be of an interest or non-interest bearing nature.

In the Post Office as a Crown corporation, cash management will be an extremely important function. In-depth studies of cash flow on a short- and long-term basis will be essential. Such studies would incorporate future capital expenditure requirements to improve operations and facilities. These capital fund requirements have not been defined as yet, thus their magnitude, when needed, the consideration of the cost of applicable monies and the effect of depreciation allowances, have not been fully assessed or related to future cash flow. The key,

(1) Refer to Page B-1 for further detail on estimated value of land and buildings.

THE HISTORY OF THE CITY OF BOSTON

FROM THE FIRST SETTLEMENT
TO THE PRESENT TIME
BY
JOHN H. COLEMAN
OF THE
CITY OF BOSTON

The history of the city of Boston is a subject of great interest and importance. It is a city of many centuries, and its history is a record of the growth and development of one of the most important cities in the world. The city has been the seat of many great events, and its history is a record of the progress of the human race. The city has been the home of many great men, and its history is a record of the achievements of the human mind. The city has been the center of many great movements, and its history is a record of the struggles of the human spirit. The city has been the birthplace of many great ideas, and its history is a record of the progress of the human race.

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as previously stated to the meeting of expenditures out of revenues and thus a favourable cash flow position will be a flexible rate structure.

OTHER ELEMENTS

In addition to the development of a broad corporate financial structure for the Post Office as a Crown corporation, a number of other elements must be considered.

Operating Results

To operate the Post Office in line with normal industrial practices, provision should be made for the retention of earnings in the business. Deficits incurred subsequent to the establishment of the corporation on a viable basis should be applied against retained earnings. Earnings of the corporation under existing legislation would be subject to normal corporation income tax regulations. As previously discussed, if deficits during the period of transition are forecast (this will be dependent upon the speed of implementation of recommendations and a viable rate structure) then a program of decreasing Government financing should be established to meet such a condition.

In addition, retained earnings should be appropriated to establish a fund to act as a contingency against fluctuations in performance resulting from abnormal situations. Until this fund is established, distribution of retained earnings should not be considered. When an adequate fund has been built up, consideration could be given to the pay out of surplus funds in the form of the dividends (out of net surplus) and, if practical, reimbursement of the Government-supplied Improvement Program Fund.

Rate structures should be developed which include allowances for cost of funds borrowed and for return on capital employed.

Borrowing Power

The Post Office as a Crown corporation should have power to borrow funds for use in its normal business operations. All borrowing should be negotiated with the Government, with short-term borrowing to finance any working capital deficits due to normal seasonal fluctuations provided for by the Government. Requests for long-term borrowing would have to be submitted to and approved by the Government.

Investments

The Post Office should be allowed to manage and invest excess funds with the aim of maximizing income on them. Such excess monies should be invested with the Government of Canada to eliminate the possibility of the corporation's investment activities running counter to the overall fiscal policy of Government. The delegation of this responsibility to the Post Office requires that considerable attention will have to be devoted to cash management practices. This will require adequate control methods under the guidance of staff experienced in corporate treasury functions.

Foreign Exchange

The Post Office deals in a variety of currencies in the settlement of international accounts. At present, all transactions with respect to international currencies are carried out for the Post Office by the Government. To foster the corporation's accountability and responsibility

for the management of its resources, authority should be vested with it to initiate foreign exchange transactions in accord with governmental policy.

Contracts

To facilitate its operating as an autonomous industrial entity, the Post Office, as a Crown corporation should have the authority to enter into contracts, under its own name, for services involving its normal operations.

Property

Dependent upon the policy established by Government in respect of land and buildings required by departments or agencies of Government, the Post Office should have the right to own property in its own name. Such a right provides flexibility of action for its future operations.

Banking

At present the banking facilities of the Post Office are controlled and operated by the Government. All funds are deposited to form a part of the Government's consolidated fund.

If the Post Office is to operate effectively as a Crown corporation, with full management and responsibility of its own resources, then it should maintain its own bank accounts.

Trust Accounts

The Post Office operates certain services that involve the custody of third party monies. These are the Money Order, Philatelic services, and Post Office Savings Bank Deposit. In addition, it acts as a collection agency for other Government departments, primarily the Unem-

ployment Insurance Commission. Such monies should be recorded on a funded basis and accounted for separately. Although the monies are available in a normal business context for use by the Post Office, we consider it imprudent to entertain any idea of using such monies in lieu of working capital for the operation of the Post Office.

Pensions

An important aspect of the transition to a Crown corporation is the pension position of the employees of the Canada Post Office. It has been estimated that the pension fund to cover present staff could be in the range of \$300 million.

The problem centres around how to transfer the liability for past service from the public service to the Post Office. Various methods may be considered, subject to Government review and policy. They are:

1. Lump Sum Transfer. Funding of the past service benefits and a lump sum transfer would be the ideal method. It would require a proper valuation of the liability, which is difficult, and the availability of funds. Alternatively, a series of annual transfers could be effected.
2. Perpetual Bond. Establishment of a special perpetual bond with interest payments that would cover past service liabilities.
3. Annual Payments. Make annual payments to the corporation equal to the estimated amount which it would have to expend in benefits to employees. This would be consistent with the position that the Government was responsible for benefits relating to service prior to the establishment of a corporation. The corporation would provide funding for benefits with respect to service after vesting of the Corporation itself.



The key to the decision on the treatment of pensions will be a policy decision as to whether the Government will accept responsibility for past service benefits. We have assumed that the Post Office will not be called upon to meet the cost of past service out of operations, which could amount to some \$13 million per annum for a period in excess of 50 years.



Chapter 6

SIGNIFICANT MANPOWER MANAGEMENT CONSIDERATIONS

The efficiency of the Post Office either as a department or as a Crown corporation depends essentially on the calibre and motivation of its manpower resources. The development of a motivated and productive work force will in turn depend to a significant degree on the extent to which the management of the organization is free to make manpower decisions, particularly with respect to policy, programs, staffing and labour relations.

The success of a Crown corporation would depend to a large extent on management's skill in utilizing its human resources. Accordingly, the Government must ensure that the corporation is given the greatest possible freedom for the management of its human resources. Specific provisions dealing with manpower management will have to be included in the statute establishing the corporation. The act of incorporation must give the Board of Directors authority to:

- establish conditions of employment
- recruit, terminate, transfer, and promote employees
- negotiate with the unions representing employees
- establish employee benefit plans including a pension fund.

The act should in effect define the status and rights of the corporation's employees.

In granting such authority to the corporation, serious consideration must be given to a number of important manpower management considerations which are highlighted in this chapter.

EMPLOYEE BENEFITS

Benefits programs available to employees of the Post Office are designed for application throughout the Public Service. They do not necessarily satisfy specific needs of the Department.

In the event of a Crown corporation being established, continued membership of corporation employees in Government-wide programs might unduly limit management's ability to bargain with the unions representing its employees. It would be to the corporation's advantage from the labour relations standpoint to establish its own programs. The establishment of a separate pension program for the corporation would, however, raise a number of significant issues and require that very serious consideration be given to the advisability of such a course of action.

At the present time, no accurate valuation of the Public Service Superannuation Plan, as it applies to Post Office employees, is available. Valuation will be essential if a separate plan is to be established. This would be a lengthy and expensive task, and would have to be undertaken before any meaningful decision could be made. Liability for pension benefits accrued to date by Post Office employees in the Superannuation Plan is estimated to be in the range of \$200 million to \$400 million. This past service benefit would have to be funded in some way in order to satisfy the requirements of the Federal Pension Benefits Standards Act. The funding

could be accomplished in a number of ways by:

- transferring from the Public Service a lump sum equal to the actuarial liabilities assumed by the Post Office Plan
- making a series of annual transfers actuarially equivalent to the lump sum payment; such transfers might be made over the period during which the initial unfunded liability must be amortized
- giving to the Post Office a special perpetual bond.

STAFF RELATIONS

Labour relations of the Post Office as a department are governed by the provisions of the Public Service Staff Relations Act. The labour relations of a Crown corporation could be governed by either the Public Service Staff Relations Act, or the Industrial Relations and Disputes Investigation Act. The advantages and disadvantages of the two approaches must be seriously considered and there must be close liaison between all parties concerned towards achieving a union/management structure that meets the needs of the parties. The Post Office in the meanwhile should remain under the aegis of the Public Service Staff Relations Act. With the establishment of a Crown corporation many programs and policies will have to be established not only for those who may no longer have a collective bargaining agent, but for those who will be demanding a continuation of the contractual commitments from the Post Office set out in their collective agreements.

As a Crown corporation, the Post Office should have full authority to bargain with the unions representing its employees. It should not be

required to seek the approval of any Government agency before concluding an agreement with unions. With such freedom, a strong effective staff relations function would be required to guide management in its relationships with the unions. Granting the corporation full authority and accountability for bargaining and staff relations will place upon the corporation a substantial responsibility. With full bargaining authority a strong competent staff relations function will be mandatory, and a continuing program for upgrading staff relations capability will have to be maintained.

IMPROVING THE EFFECTIVENESS OF PERSONNEL SYSTEMS

The review of the Department's personnel systems has indicated that they are deficient in many respects when compared with systems being used by some of the more successful organizations in the private sector. New, consistent and integrated personnel systems will have to be developed for the effective utilization of the Post Office's manpower resources either as a department of Government or as a Crown corporation.

A substantial improvement in systems should be within the public service framework, but once certain improvements have been effected, greater freedom will be required to achieve further improvements aimed at optimizing the utilization of human resources. Changes in personnel systems will be required in such areas as:

- manpower planning
- classification pay and benefits

- staffing
- training and development
- staff relations.

The full development of appropriate systems is vital but will nevertheless place a significant strain on top management during a most difficult period. However, unless the fullest consideration is given to manpower matters, particularly improvement of staff relations, it will be difficult for the corporation to implement recommendations in such critical areas as organization, managerial practices, automation and management information systems. In summary, without enlightened dynamic manpower management, the expectations for the corporation will not be achievable.

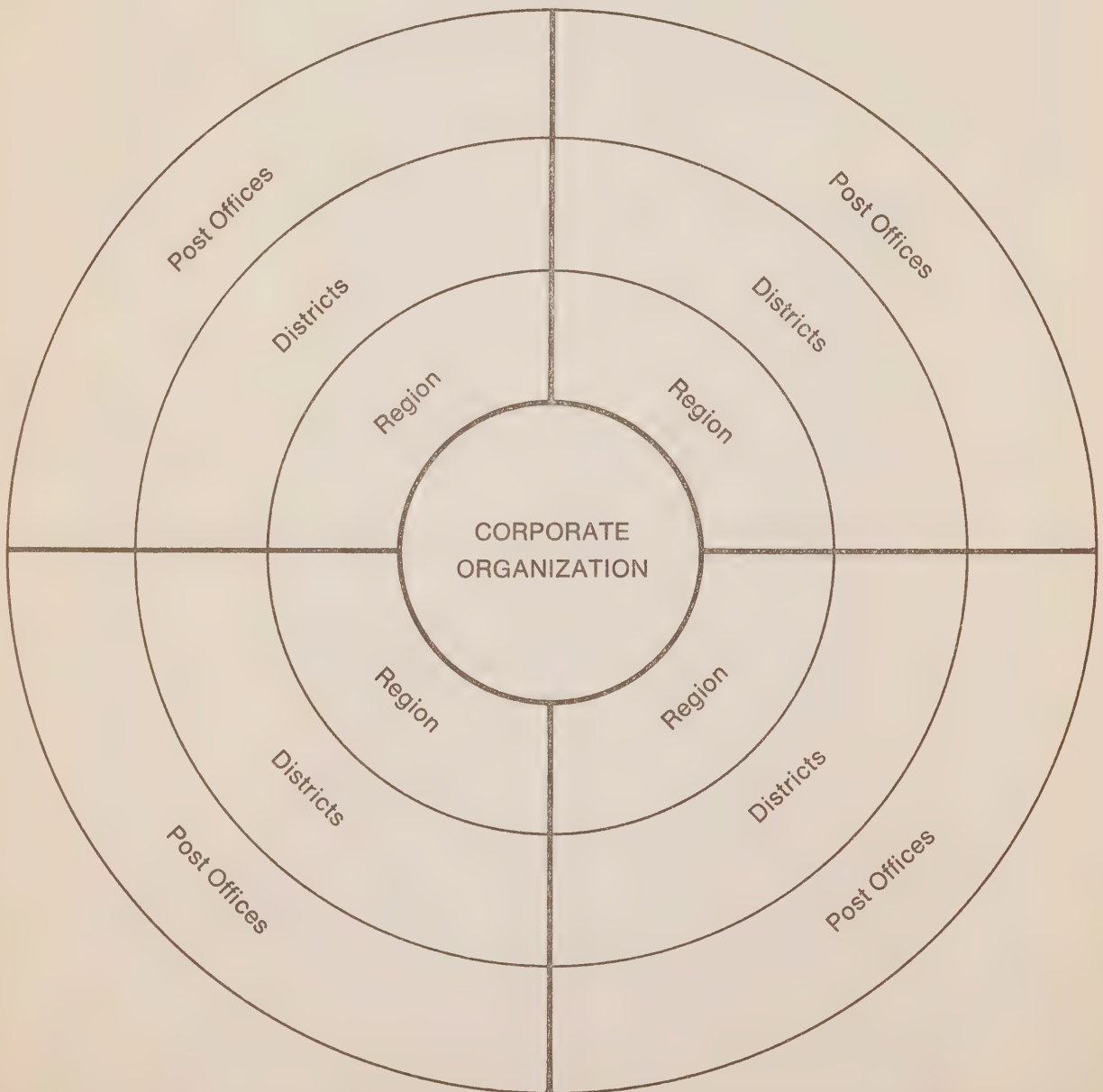
Chapter 7

THE ORGANIZATIONAL CONCEPT AND STRUCTURE

As a Crown corporation, the Post Office will require an organization structure that will provide for substantial local autonomy with respect to the management of routine operational matters, within the framework of a totally integrated national system. An organization structure and management systems must be established that will:

- offer an efficient service within the framework of national communications policy
- ensure that user needs are properly identified and satisfied
- anticipate and respond to social, economic and technological trends
- ensure a flexible organization structure and systems capable of a continuing search for new and better ways of operating
- permit delegation of authority to the lowest possible levels in the organization consistent with efficient operations
- provide the human resources of the organization with a challenging environment that will motivate individuals towards the attainment of high levels of productivity
- permit clear assignment of accountability
- ensure that required earnings are generated and costs controlled.

The organization structure proposed provides for substantial delegation of authority from Headquarters to the field. It will take up to five



years to introduce in its entirety. In the meantime, a transitional organization will be established. Indeed we hope that, once the process of organizational change has been induced, it will continue and involve a constant search for improvements in the organization and utilization of human resources.

THE PROPOSED ORGANIZATION CONCEPT

The proposed organization concept provides for four clearly identifiable levels of management. These are illustrated in the chart opposite which also appeared opposite Page 21.

Corporate Organization

Corporate management would be concerned with the broad direction of the affairs of the corporation. These executives should work as a team, defining national objectives and formulating policy which would provide guidance and broad direction to regional management. Full authority for regional policy determination and operations would be delegated to the regional level. The postal system would be managed through a number of regions covering broad geographic areas.

Corporate management would be a comparatively small group - considerably smaller than the existing Headquarters organization. It would:

- define the corporation's objectives and policy, develop plans for the provision of services which would generate earnings and produce an agreed financial return
- evaluate the plans developed by regional management and allocate corporate resources to those offering the best potential

- monitor in broad terms the achievements of regional management to ensure that their results are in line with plans and satisfy corporate service and financial requirements
- encourage regional directors and executives throughout the organization to be opportunities-oriented and to commit themselves to achieving the objectives of the corporation in terms of service to markets, effective use of assets and generation of an agreed contribution to income.

Regional Level

Regional management would be responsible for policy and operations in a major geographic area. Management must be capable and willing to accept wide powers delegated from the corporate level and to operate the regional organization as a dynamic, market-oriented enterprise.

Specifically, regional management would be required to:

- develop regional objectives, policies and plans within the framework of corporate policy and be alert to local market opportunities and environmental factors
- agree objectives and plans for the region with the corporate management, and obtain from them resources required for implementing those plans
- advise corporate officers of any recommended changes in the light of the region's specialized knowledge
- set objectives for the district organizations responsible to them, and ensure that they operate effectively and provide the services required.

Each region would be divided into a number of districts covering major segments of the regional markets for postal service.

Probable Regions

A number of alternative regional arrangements and groupings have been considered relative to:

- markets served in the differing socio-economic regions of Canada
- political boundaries and considerations
- population concentrations and trends
- existing Post Office organization including the locations of key processing plants
- transportation and communications networks and patterns
- regional and district groupings of other Government departments
- language and social factors.

Principal Alternatives

Three alternatives have been subjected to close scrutiny. The most attractive regional arrangement from the standpoint of the postal system would be four regions comprising:

- Western Canada, consisting of British Columbia, Alberta, Saskatchewan, Manitoba, part of North-western Ontario and the Northwest Territories
- Ontario, consisting of all Ontario except for part of Northwestern Ontario
- Quebec, consisting of the entire province
- Atlantic, consisting of New Brunswick, Nova Scotia, Newfoundland and Prince Edward Island.

Two five-region arrangements have been considered. In one case, the western region described above would be split into two regions,



PROPOSED REGIONAL BOUNDARIES



1 Western Region



2 Ontario Region



3 Quebec Region



4 Atlantic Region



one covering British Columbia and the other covering Alberta, Saskatchewan and Manitoba. In the other arrangement, British Columbia and Alberta would be combined as one region with Saskatchewan and Manitoba as another. The Ontario, Quebec and Atlantic regions would remain the same as in the four-region concept.

The chart opposite roughly illustrates the four-region arrangement.

Under the four-region arrangement, three of the regions would each be responsible for a very large segment of national postal activity. The Atlantic region would be substantially smaller but would be necessary because of particular economic, social and transportation factors.

District Management and Post Offices

District Directors would ensure that a high standard of postal service is provided by the post offices. While the organization of the proposed districts would be similar in some respects to that of existing districts, a different approach would be employed.

The District Directors would agree on objectives and budgets with postmasters and would then be held accountable by the regional management for the achievement of results. District Directors should alert regional management to major opportunities or problems. They should ensure that postmasters have the guidance and support necessary to effect-

ively manage postal installations under their control. They would be responsible for ensuring that, when necessary, staff specialists from regional or district offices are assigned to develop opportunities or solve problems at the post office level.

Post Offices

The internal management of post offices would be little changed under the proposed concept. However, substantially greater authority for decisions and action would be delegated to the postmasters in charge of postal installations. The character of post office/district/Headquarters relationships would be significantly changed.

CORPORATE MANAGEMENT - POLICY PLANNING AND PERFORMANCE EVALUATION

The corporate or Headquarters organization would be concerned primarily with the formulation of corporate objectives within the framework of national communications policy, the review of objectives and plans developed by regional management, and the evaluation of regional performance. Specialist staff groups would also be maintained at the corporate level to provide functional support services to the organization overall where it is clearly more economical and efficient to provide such services on a centralized basis. Before a decision is made to centralize functional support services, corporate management must carefully consider the degree to which such centralization may inhibit management at the regional level.

Establishing Objectives

As mentioned, corporate management would be responsible for formulating and defining the objectives of the corporation within the framework of national communications policy. In establishing objectives, these executives must ensure that the objectives established are:

- in accordance with the Government's communications policy and will support the implementation of that policy
- clearly defined and understandable in terms of benefits to the public
- feasible and obtainable through superior corporate performance
- sufficiently precise to permit measuring the degree of achievement attained
- subject to continuing review to accommodate changes in the environment.

In order to obtain the required input for establishment of objectives, corporate management must ensure that regional management properly determine the demand for postal services.

Policy Determination

With objectives established, corporate management would define policies for the organization overall. These policies should establish the parameters for action and should provide a guide for decision-making at all levels of management. The policies should not restrict initiative or enterprise and in particular should permit the formulation of policy by regional management within the framework of national policy.

Corporate policies should be:

- consistent with the objectives of the corporation
- clearly outlined for the major operational and support functions
- flexible enough to permit policy variations between regions.

Performance Criteria

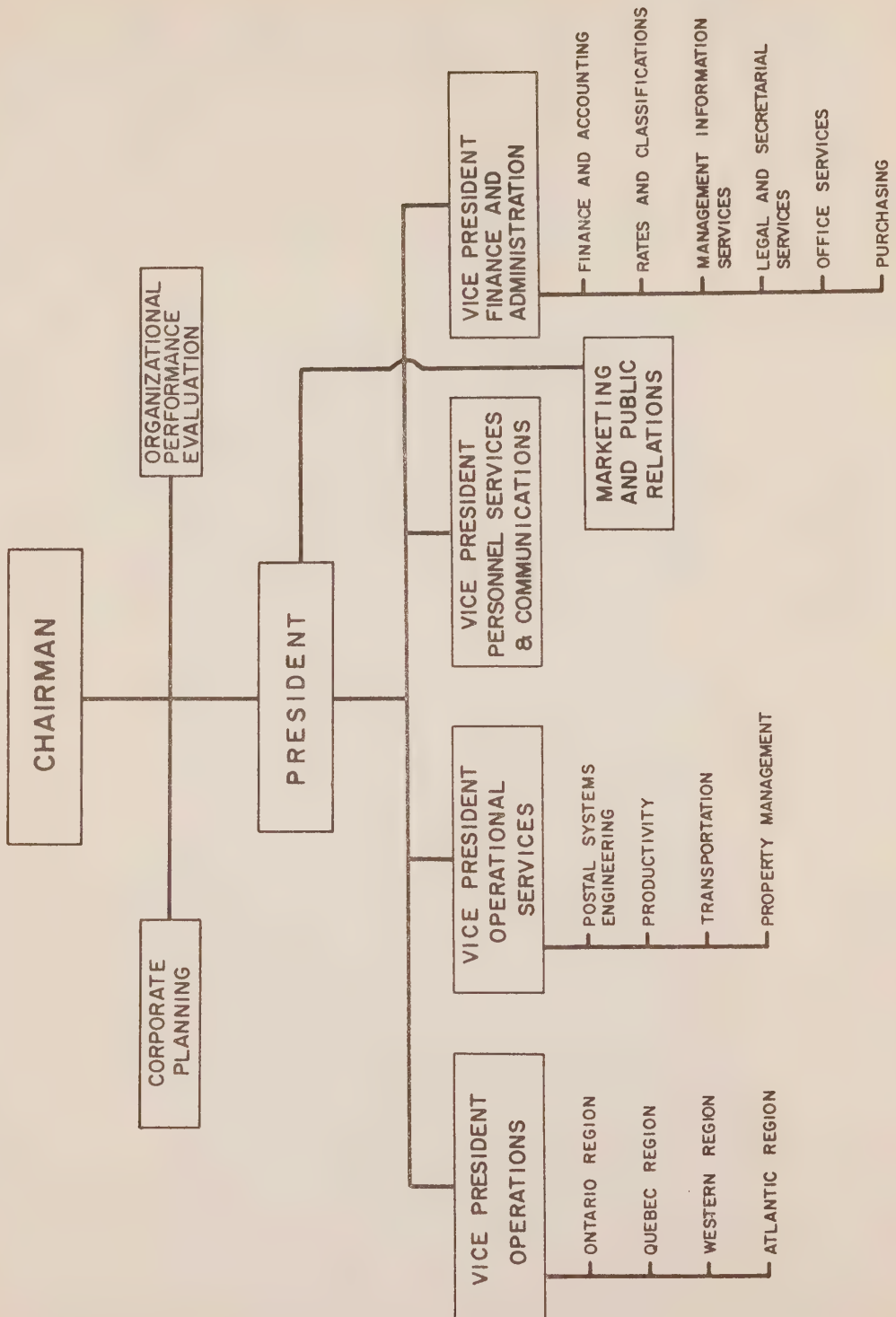
Corporate management must measure the performance achieved by the corporation against planned performance and objectives. Performance criteria should be defined for all aspects of postal operations; for the corporation overall by the Board and the top executives, and for each of the regions by the management in those regions, working with corporate management.

Performance criteria must be:

- practical and simple to apply
- of concrete value in decision-making
- precise and quantifiable in specific terms such as dollars and time
- directly related to the organizational component being measured
- capable of ready comparison and interpretation
- in no more detail than is necessary for the level using them.

The criteria should generally be incorporated as an integral part of the management information system, and performance against criteria should be monitored through routine and special management reports.

PROPOSED CORPORATE ORGANIZATION STRUCTURE



Evaluation of Performance

Performance evaluation in the corporation must be a continuing process and should be applied in different degrees by different levels of management. Corporate management would be responsible for evaluating the performance of the regional organizations.

The corporate officers would jointly review the overall performance. The President must evaluate, with the Vice Presidents, the performance of the components for which they are responsible. In particular, the President and Vice Presidents must work with the Vice President, Operations to evaluate the performance of the regions.

In addition, an organizational component reporting to the Chairman would be responsible for providing an overview of organizational performance. Performance evaluation must be objective and constructive and must be focused on the results achieved.

CORPORATE ORGANIZATION STRUCTURE

For optimum effectiveness of the organization overall, the corporate or Headquarters organization should be small, comprising competent executives concerned with objectives, policy planning and performance evaluation. The organization proposed for the corporate level is illustrated opposite.

The Chairman of the Board would be the chief executive of the corporation. He would be concerned with determining general policy, ensuring a high level of corporate performance overall, and with corporate

relations with Government agencies and other external bodies. He should lead and motivate the Vice Presidents and deal with:

- the Minister
- Treasury Board and the Department of Finance
- Parliamentary Committees.

Reporting directly to the Chairman would be the Director, Corporate Planning and the Director, Organizational Performance Evaluation. The President, who would be responsible for the operational direction of the corporation, would also report to the Chairman.

The Director, Corporate Planning would be responsible for defining in broad terms the corporation's objectives in the light of demands for postal service, and for co-ordinating corporate planning. The Director, Organizational Performance Evaluation would lead a small staff group concerned with the evaluation of corporate performance. This group should help the Chairman to review objectives, plans and budgets before submission to the Board of Directors and subsequently to Treasury Board and the Department of Finance.

Reporting to the President would be four Vice Presidents and a senior executive responsible for developing the marketing function. One Vice President would be responsible for directing and co-ordinating the efforts of Regional General Managers, each of whom would be responsible for the effective management of a major segment of the postal system. The Vice Presidents in charge of Operational Services and Finance and

Administration would each be responsible for co-ordinating the provision of a number of related services that would be maintained at the corporate level to provide regional organizations with highly specialized functional expertise. The Vice President, Personnel Services and Communications would carry responsibility for the total personnel function. The Director, Marketing and Public Relations would be responsible for developing those functions.

The Vice Presidents should work closely with the President and with one another, and would:

- formulate national policy for their areas of responsibility; review, evaluate and comment on policy formulated at the regional level
- ensure the preparation of integrated plans for the corporation overall
- provide regional management with functional support services
- review and co-ordinate organizational performance relative to their areas of responsibility.

THE CHAIRMAN
AND HIS STAFF

The Chairman should be a senior executive of proven ability with extensive experience in a large-scale widely dispersed organization in labour-intensive industry. He must be capable of working effectively within the Government environment and giving direction to the corporation as a viable commercially-oriented enterprise. Specifically, he would:

- report to the Minister and to Parliament and appear before Parliamentary Committees to explain corporation affairs

- maintain liaison with Treasury Board, the Department of Finance, and other Government organizations
- provide leadership in the Board's deliberations on policy, and obtain the best use of the capacities of Board members for the corporation's benefit
- present major policy changes proposed by the corporation for the Board's consideration
- advise the Vice Presidents and senior officers to ensure that plans are executed in accordance with the policy of the Board
- present corporate plans including capital and operating budgets to the Board, and report financial progress and achievements.

The Chairman would be assisted by two small staff groups; the Corporate Planning and Organizational Performance Evaluation units.

Corporate Planning

The Corporate Planning Group would be responsible for co-ordinating plans developed by the operating organization and the functional groups, and providing functional support to the operating organization. It should ensure that the plans developed are in a form suitable for presentation to the Board and ultimately Treasury Board and the Department of Finance. It must review the plans developed to ensure that they are in accord with corporate objectives and properly recognize the demand for services and the impact of the environment on the postal system.

Part of the group would be concerned with continuing environmental research and trends in communications technology.



Organizational
Performance Evaluation

Organizational Performance Evaluation would be the paramount evaluation component of the organization. It should be small and closely knit, consisting of senior executives with skills in the management sciences, finance, personnel, and postal operations, with a strong, independent and objective viewpoint.

VICE PRESIDENT, OPERATIONS

The Vice President, Operations would be responsible for approving national operations policies and for ensuring that Regional General Managers provide effective postal service in accord with the objectives of the corporation and performance criteria.

This executive should ensure that the Vice President, Operational Services provides the Regional General Managers with required functional services which the regions find uneconomical to provide in their own organizations.

Substantial authority for operations would be delegated to the Regional General Managers. It would be the responsibility of the Vice President, Operations to ensure that the regions properly use the delegated authority.

The Vice President should spend a significant amount of time at the regional offices in discussion with Regional General Managers and senior operating officials in order to be completely familiar with the nature and scope of problems and the capabilities of his regional execu-

tive staffs. He should arrange for specialist support services in a number of functional areas, in situations where such services cannot be provided by Regional General Managers because of the composition of their staffs. These services would be provided by the Vice President, Operational Services.

MANY FUNCTIONS REQUIRE EMPHASIS

A large number of complex and inter-related problems currently confront the postal system. In order to overcome them, improvements must be effected in a number of areas and will require strong top management support and direction. Functions requiring special consideration include:

- Personnel
- Marketing
- Public Relations
- Systems Engineering
- Productivity
- Property Management
- Financial Management
- Postal Rates and Classifications
- Management Information Systems.

These functions really demand presidential direction but placing these and other corporate functions directly under the President would create an impractical organizational situation. We recommend, therefore, the appointment of group Vice Presidents, each responsible for the direction of a number of compatible functions.

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These Vice Presidents in charge of corporate services should be of general management or almost presidential calibre and would direct and co-ordinate activities supporting the operating organization.

VICE PRESIDENT,
OPERATIONAL SERVICES

Reporting to the Vice President, Operational Services would be a number of organizational components with a systems engineering orientation. They would define broad operational guidelines for the corporation overall, review operational planning and assist with the evaluation of operational performance. These components would be vitally concerned with the implementation of programs designed to automate postal operations. They would view the operations of the Post Office as a total system from mail collection as input to mail delivery as output. Operational Services would spearhead the implementation of automated mail processing but would rely heavily on regional management for the definition of operating requirements. The group responsible to the Vice President, Operational Services would be organized around a core of highly competent systems engineers with industrial, electronic, electrical, mechanical and civil engineering skills.

Four groups would probably be required in the continuing organization:

- Postal Systems Engineering
- Productivity
- Transportation
- Property Management.

The core group would be Postal Systems Engineering and would establish the direction to be taken by all the other components in the group.

VICE PRESIDENT, PERSONNEL
SERVICES AND COMMUNICATIONS

The many and complex manpower problems confronting the postal system and their productivity implications demand that a high priority be given to improvement of manpower management. The personnel function should report directly to the President. Along with the improvement of the personnel systems, it would implement programs for the improvement of management-employee communications. Staff under the Vice President, Personnel Services and Communications would be required to design and implement personnel systems for use by the regional personnel staff groups and the line management in the regions. Many of the procedures designed by the corporate group would have to be modified for application to particular local conditions and situations. In the earlier stages they should be modified by the corporate group or under their close supervision.

VICE PRESIDENT, FINANCE
AND ADMINISTRATION

The Vice President, Finance and Administration would have under his direction, a number of functional groups providing services to the organization overall. These would include:

- Finance and Accounting
- Rates and Classifications

- Management Information Services
- Legal and Secretarial Services
- Office Services
- Purchasing.

The emphasis in this particular group of functions should be on the development of the Finance and Accounting, and Management Information systems functions. The Post Office as a department of Government has followed governmental financial and accounting practices. As a Crown corporation, it must be able to introduce and apply sound commercial and financial principles and introduce systems that will satisfy its needs.

MARKETING AND PUBLIC RELATIONS

There is a clearly indicated need for improvement in the marketing and public relations activity in the Post Office. However, the form that the marketing program should take and the organizational stature of the function cannot at this time be readily determined. As an interim measure this function should report directly to the President. The function may develop to a degree that would justify Vice Presidential status. Alternatively it might be grouped with one of the other corporate functions.

CORPORATE EMPHASIS

The emphasis in the corporate organization must be on policy planning and performance review. The corporate organization should be small and should consist of highly specialized managers. The President and the

Vice Presidents must take special steps to prevent the corporate organization becoming involved in operating routine.

REGIONAL MANAGEMENT

Strong regional organizations would be established, enabling the system overall to cater more effectively to the needs of markets and to respond quickly to changing conditions and circumstances. Regional management should be strongly oriented towards the markets which they serve and would require substantial authority for the definition of regional policy. Delegation of authority from corporate management to the regions would bring management close to the users of the postal service and operating conditions. It would facilitate identification of requirements and formulation and implementation of policy and programs.

Organization and management systems must be flexible. Regional management should tailor organization structure, services and operations to meet the requirements of the regional markets that they serve.

The service requirements of mail users can vary substantially from one socio-economic area to another. The manner in which the postal system operates need not be uniform throughout the country. There can be variations from region to region in response to the requirements of users. Regional management must establish appropriate regional policy within the framework of corporate policy.

CONCEPT OF THE REGION

In addition to defining regional policy, regional management

would be required to provide effective direction to the field organization. Regional management must ensure that post offices, the basic operating element of the postal system, operate in an effective manner.

Regional management would be required, within the framework of corporate policy, to define objectives and make plans for the region. These plans would be reviewed and integrated into nation-wide plans at the corporate level. Regional management should be held accountable for the results achieved by the region.

Regional management would be responsible for identifying user requirements and seeking opportunities for generating and increasing revenue. They must, however, work within certain constraints. The national communications policy would be defined by the Government of Canada and the corporate policy of the Post Office would be defined by the Board of Directors. Nation-wide policy should emphasize the minimum requirements, in terms of services, which regions must provide. Regions should not be restrained from providing additional services as long as they can show a proper rate of return on the funds which corporate management would make available to them.

Effective management at the Regional level would:

- permit a more effective review and analysis of postal operations throughout the country
- ensure that opportunities and problems are anticipated, identified and dealt with as near as feasible to the point at which they arise
- enable field management to respond more quickly

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and appropriately to conditions and opportunities arising in the markets which they serve

- deal with emergencies and special situations in a flexible, responsible, rather than a rigid manner
- permit effective monitoring and control of costs within budgets
- lead, if properly implemented, to increased motivation of executives, managers and supervisors in the field by gaining their commitment to objectives and programs which they have developed.

ORGANIZATIONAL FLEXIBILITY

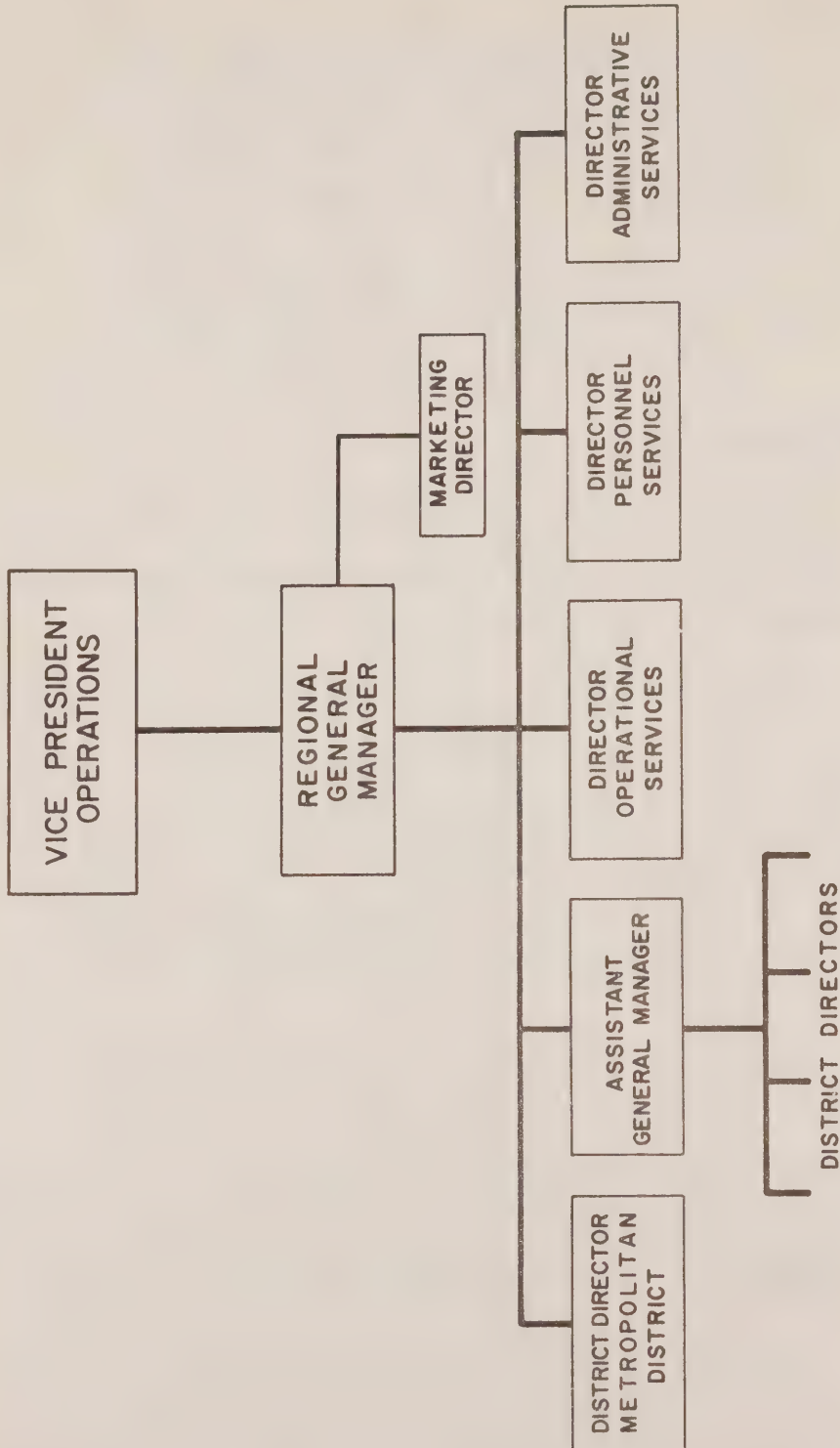
Establishing the four regions proposed would mean that all regions, while satisfying the requirements for regional management, would be substantially different in size and character.

The precise organization structure for each region should be developed in detail during the implementation of organizational recommendations. Prime responsibility for detailing regional organization should rest with the Regional General Manager and his immediate subordinates assisted by corporate task forces. Regional management must obtain the commitment of regional staff in the structuring of the organization.

A constant factor between regions will be the nature of their relationships with corporate management. Effective integration and operation of the corporation demand that regional performance and operations be represented to corporate management in a way that would enable these executives to plan for the corporation overall and accurately evaluate performance.



PROPOSED REGIONAL ORGANIZATION STRUCTURE



Basically, the Regional General Managers would be held accountable to corporate management, within national policy, for economically using the resources allocated to them and for providing services which will generate income and contribute to corporation earnings. Corporate management would review the operations of the regions to ensure that they are applying management practices which are conducive to high productivity. An important factor will be the management information system. Improved performance and productivity should be attainable through delegation of responsibility and authority for action to the lowest levels of management within the organization, provided lower echelon management are properly trained and permitted the freedom from strict central control that is implicit in the concept of delegation.

A basic formula for regional organization structure has been developed to assist with the detailing of the specific organization structure for each region. This is illustrated in the chart opposite.

The Regional General Manager and key subordinates would be responsible for the formulation and implementation of policy. The key executives and their primary roles would be as follows:

1. Assistant Regional General Manager would direct and co-ordinate the activity of all District Directors other than those in charge of the Metropolitan Districts.
2. Directors of Metropolitan Districts would manage the Metropolitan Districts.
3. Director, Operational Services would provide services of an operational nature, such as productivity, transportation and engineering, to the Assistant Regional General Manager and the Directors of Metropolitan Districts.

4. Director, Administrative Services would provide administrative services, particularly in the areas of finance and control, to all regional components.
5. Director, Personnel Services would provide regional personnel services.
6. Director, Marketing would assist the Regional General Manager with the formulation of marketing strategy and maintenance of relations with major mail users within the region.

Each region must be headed by a senior executive with broad experience in the field of management and a good understanding of the nature and complexities of postal systems. He should report directly to the Vice President, Operations at the corporate level.

Each of the regions would be divided into a number of districts. Districts would basically be responsible for ensuring that effective postal services are provided to users by post offices and postal installations.

MANAGING THE TRANSITION

The implementation of the organizational concepts and the transition from the existing to the proposed organization structure should be carefully planned and co-ordinated. The transitional program will demand the very close direction of the Deputy Minister in all stages of the process. The actual transition must be co-ordinated by a corporate task force consisting of carefully selected senior officers with a high level of personal motivation and dedication to change.

Complete development and implementation of the proposed approach will of necessity be lengthy and will require close co-operation among

officers within Headquarters and between Headquarters and the field. Implementation of many of the concepts underlying the recommendations will require significant changes in the attitudes and approach of senior officers. Essential steps in the program will involve:

1. Realignment and the strengthening of the Headquarters organization structure.
2. Formation of a task force with responsibility for establishing a regional organization.
3. Establishment of a pilot regional organization with responsibility for testing organization concepts and the intensive implementation of recommendations made by management consultants.
4. Phased development and establishment of regional organizations throughout Canada and gradual reduction of Headquarters involvement in operating management.
5. Eventual establishment of the proposed corporate organization structure with responsibility for policy formulation, planning and performance evaluation.

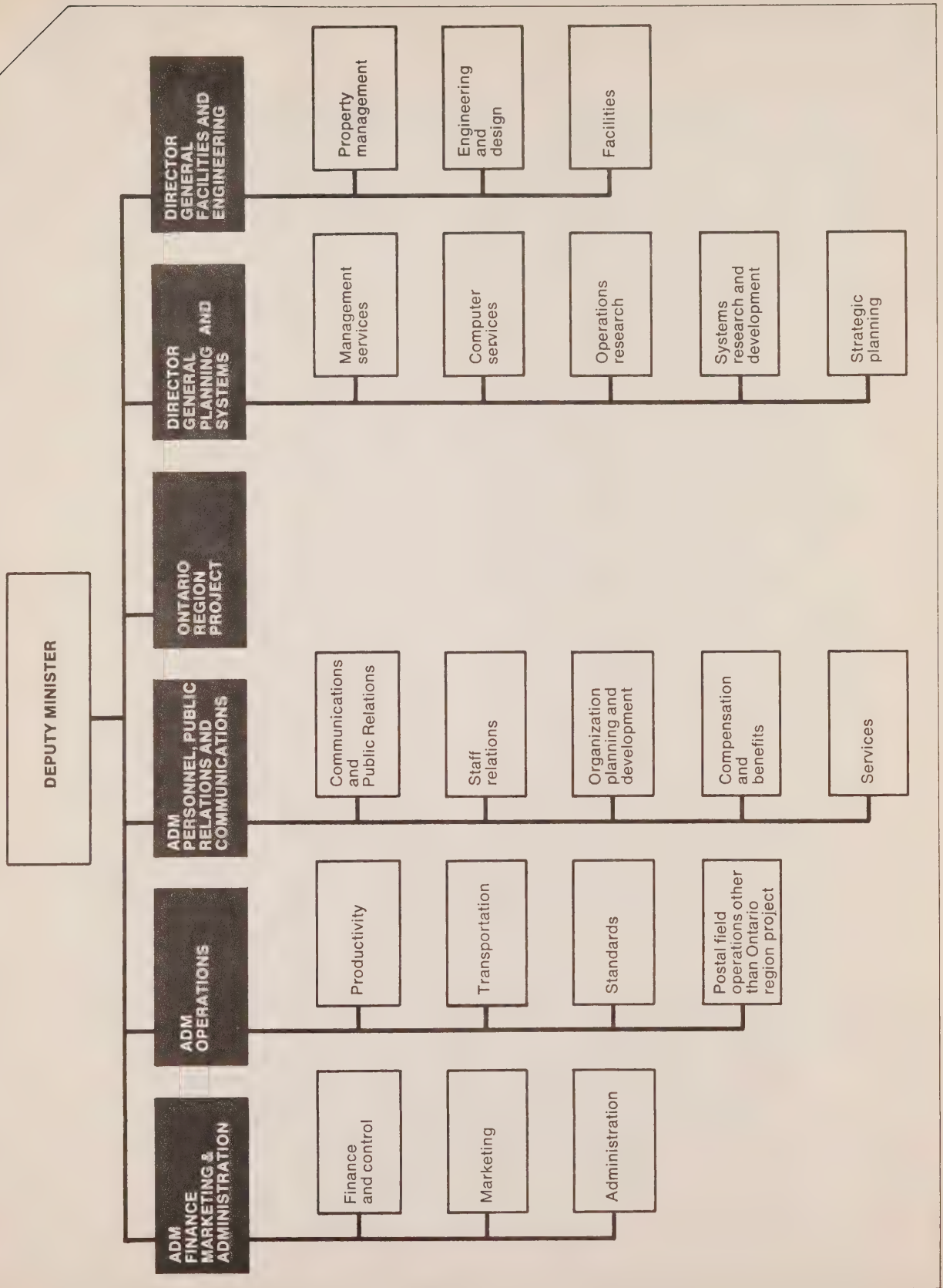
This sequence of steps, along with their probable timing, has been reviewed with the Deputy Minister, his Assistants and the Special Advisor to the Minister. Action has already been taken to strengthen the organization at the corporate level and to form the nucleus of a regional task force.

STRENGTHENING THE HEADQUARTERS' ORGANIZATION

The Headquarters organization should be strengthened by the infusion of executives with proven managerial skills and substantial



TRANSITIONAL HEADQUARTERS ORGANIZATION STRUCTURE



experience in the private sector environment. They must have strong functional skills in such areas as:

- finance
- marketing
- productivity
- transportation
- personnel
- public relations
- communications
- information systems
- facilities and engineering.

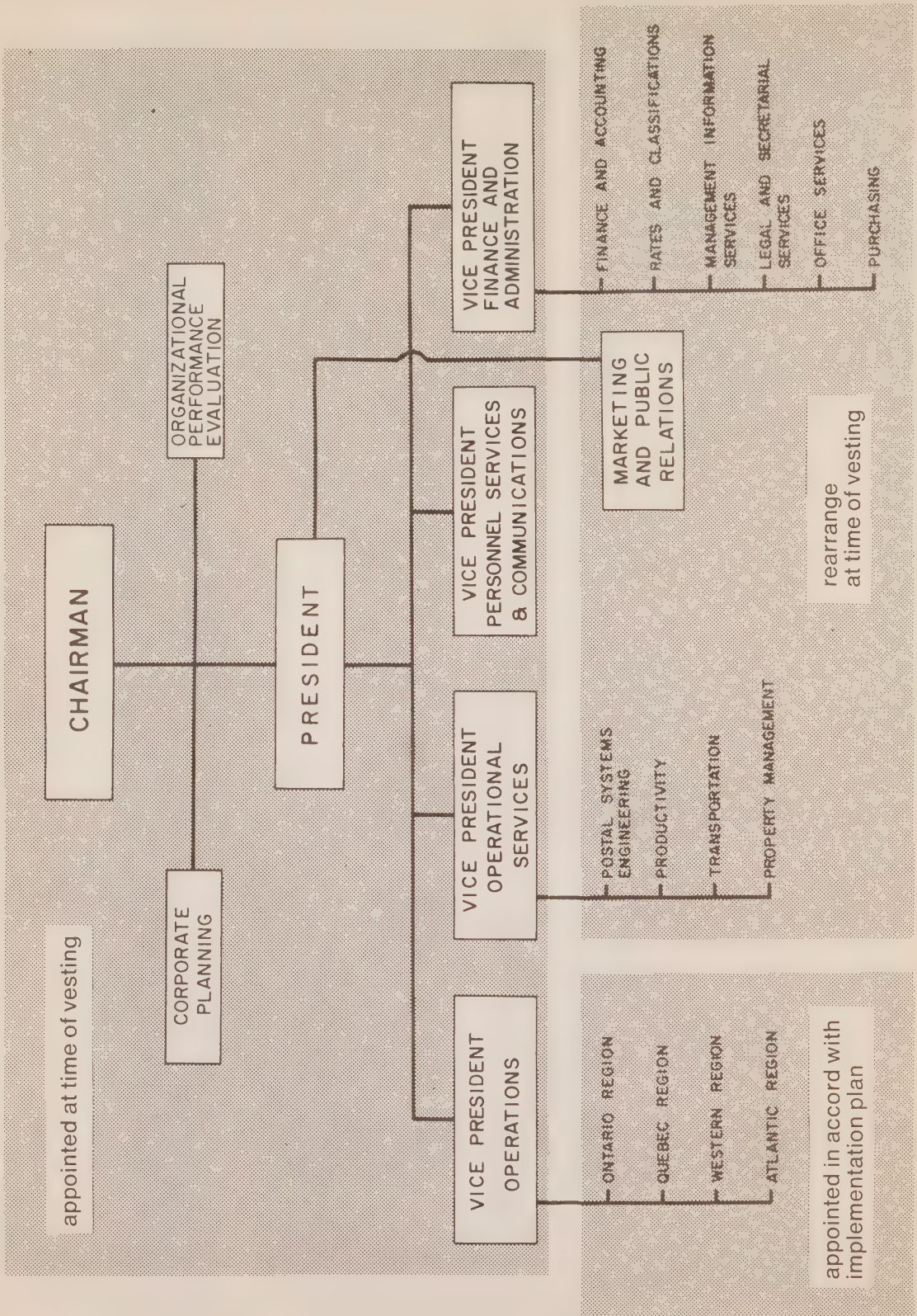
It would be neither desirable nor feasible to move to the proposed ultimate corporate structure until at least one of the regional organizations is fully established and operating effectively. Changes in the existing organization structure would, however, be necessary in the interim and the proposed transitional Headquarters organization structure, which has been discussed with senior officers in the Department, is illustrated opposite. The transitional organization would attempt to effect improvements in operating systems throughout the Post Office where these improvements can be readily handled by existing operating personnel and would not require special changes to existing organizational arrangements.

The Headquarters organization would continue to operate in much the same way as it has in the past but would gradually transfer responsibility for the operation of the system to the regional organizations as they are formed.



PROPOSED CORPORATE ORGANIZATION STRUCTURE

Organization structure at time of vesting



With the establishment of a Crown corporation, a substantial change in the transitional organization would have to be effected in order to permit appointment of highly qualified executives to a number of key positions, particularly:

- the Chairman
- the President
- Vice President, Operations
- Vice President, Operational Services
- Vice President, Personnel Services and Communications
- Vice President, Finance and Administration
- Director, Corporate Planning
- Director, Organizational Performance Evaluation.

The organization structure that would be required at the time of vesting is illustrated opposite.

PILOT REGION TASK FORCE

The task force formed to guide the implementation of a pilot region would be under the direction of a senior officer who would report directly to the Deputy Minister. The force itself would consist of officers from the Department assisted by outside consultants. The group should be required to effect immediate improvements in systems and reduce costs. It should also develop detailed guidelines for the organization and management systems to be used by the regional organization. Specifically, the group would be required to:

- improve postal service in the pilot region
- test the recommendations made by consultants
- participate in the selection of executive staff for the regional organization
- demonstrate the improvements that are possible with the infusion of managerial skills
- provide an environment into which staff could be recruited and developed for eventual promotion to key positions at the corporate level and to other regions as they are formed.

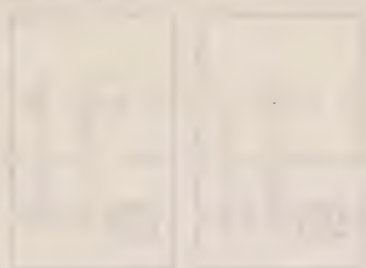
Within a six-month period the task force should be capable of forming the nucleus of a regional organization. Members of the task force would, if competent, assume executive positions in the pilot region organization or other regions.

PILOT REGION ORGANIZATION

The pilot region organization that would emerge from the efforts of the task force would initially assume responsibility for the management of an existing district. It appears that the existing Toronto district would be the most suitable choice for such an arrangement.

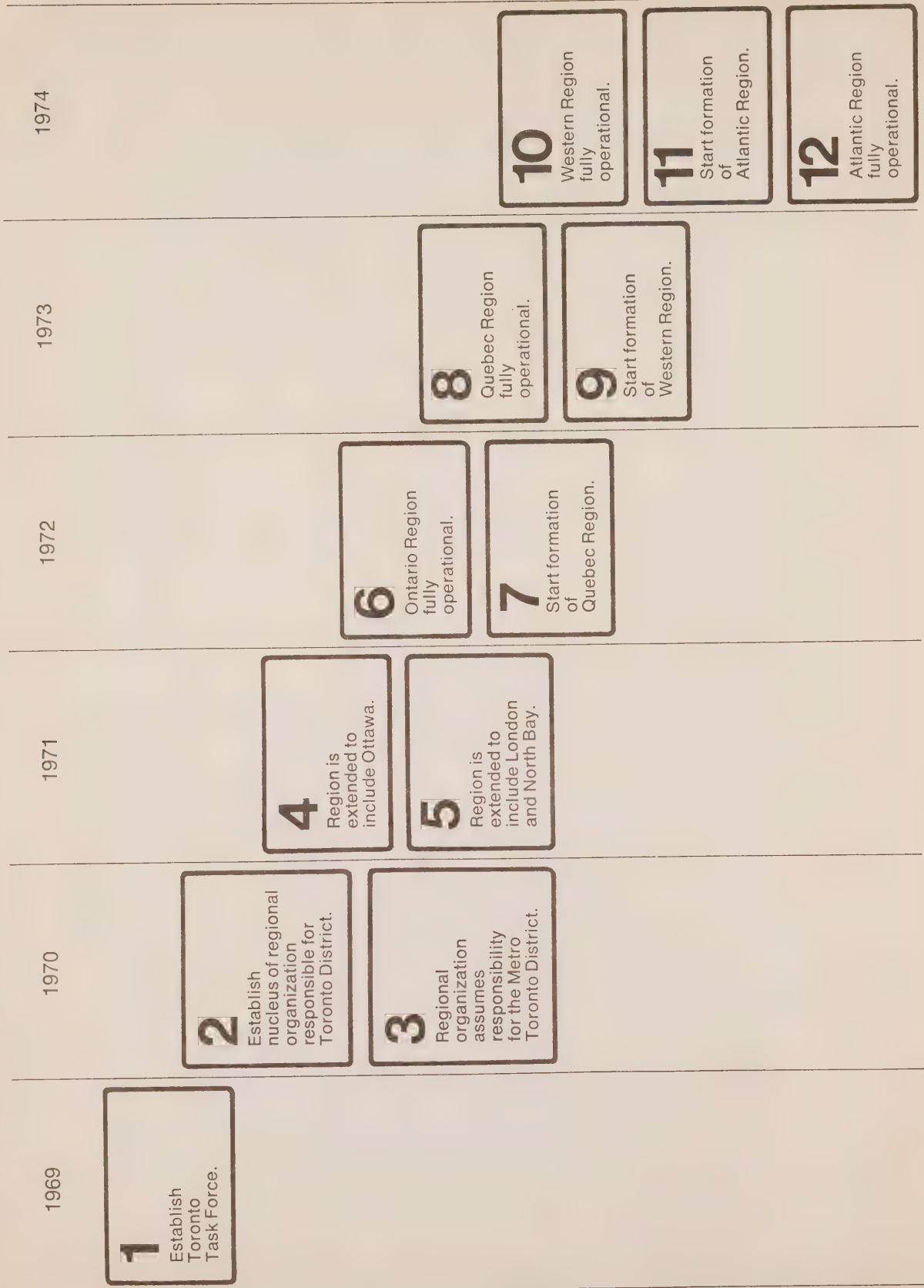
The pilot region organization would be heavily involved in operating matters and would look to Headquarters for policy formulation. As it developed strength, however, it would assume broader responsibility for the formulation of regional policy.

The nucleus organization would gradually be extended to cover all districts in Ontario. Until included in the regional organization, the



Steps in the transitional program

REGIONAL TRANSITIONAL PROGRAM



districts would continue to report directly to Headquarters. The regional organization would assume responsibility for the management of districts only when it is clearly prepared and qualified to provide the quality of management required.

As the existing districts are assimilated into the regional organization structure, district boundaries would be redefined and a larger number of smaller more manageable districts would be formed.

ESTABLISHMENT OF OTHER REGIONS

The timing and sequence of the establishment of other regions would be determined by the degree of success experienced by the pilot region. We believe that it may take five years to completely introduce the regional structure if disruption of systems is to be avoided and motivation of personnel is to be maintained. In the chart opposite we indicate the approximate time frame for the establishment of regions.

Chapter 8

MANAGEMENT INFORMATION SYSTEMS A TOOL OF MANAGEMENT

The overall effectiveness of a corporation is dependent upon the capability of its executive and line management. Their effectiveness is dictated in large measure by the availability and accessibility of reliable information covering all facets of the business on a current basis. We anticipate that the introduction of a comprehensive information system in the Post Office will be the foundation on which most of its changing objectives and plans will be monitored and decisions executed.

THE PRESENT SYSTEM

The information system now in operation is inadequate to meet the current needs of the Post Office or to enable management to recognize and deal with emerging problem situations. Through interviews, group workshops and research and observations made during the course of this study, we have found that there is presently a lack of management information in the Post Office. Considerable effort is currently being directed to upgrading the information system in the Post Office, but the overall position is reflected as follows:

1. Information Availability. A tremendous quantity of information is available both in the field and at Headquarters. This data is not readily accessible nor is it available in an organized format suitable for management use. Rather than a reporting network that is focused on assisting management decision-making, the bulk of the data gathered is

historical in nature and would portray what is happening now or what is likely to happen in the near future.

2. Information Flow. The predominant flow of information is from the field to Headquarters. Considerable duplication exists in the gathering of data. Field personnel suffer from a lack of summarized information coming to them from Headquarters.
3. Information Retrieval. It is virtually impossible to retrieve vital information fast enough to take prompt positive action on a situation. This, coupled with the lack of regular action-oriented reporting, constitutes the most critical factor facing the management group in the Post Office today.

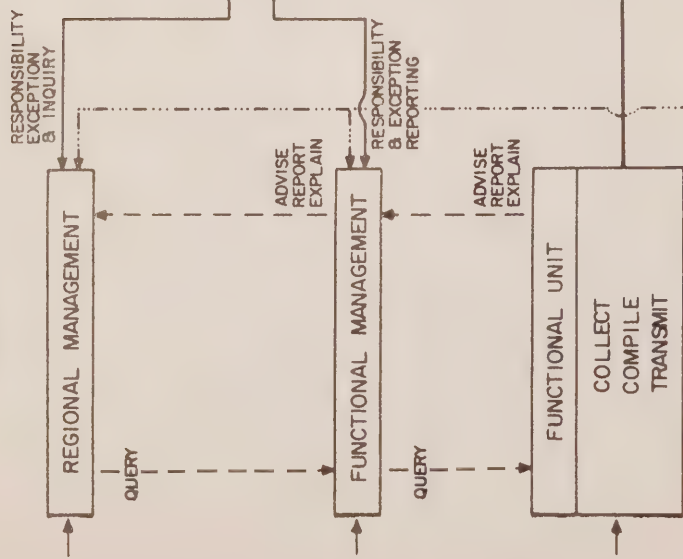
It is vital that a reliable management information system be implemented in the Canada Post Office as soon as possible. The need for management information is evident across the system.

INFORMATION PRIORITIES

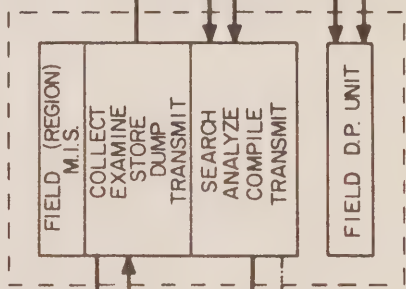
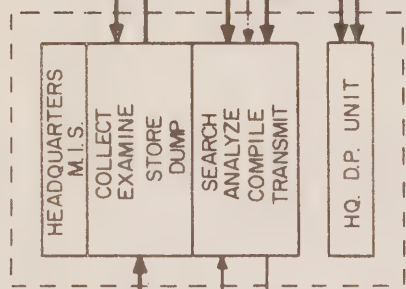
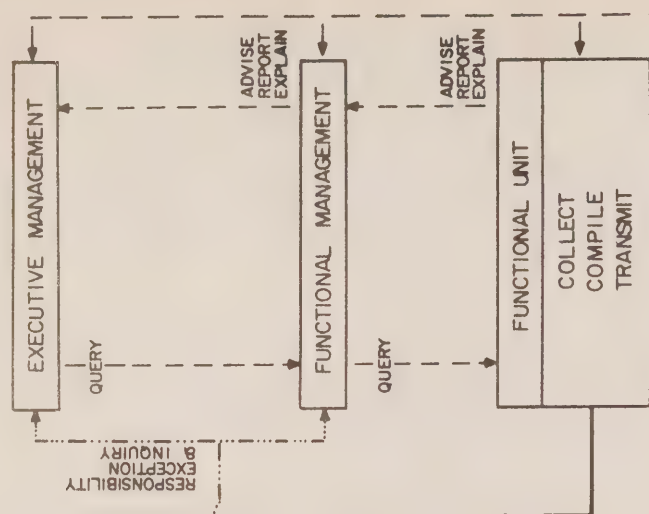
The information requirements of the Post Office must be viewed in varying degrees of priority and should be directly related to the short- and long-range objectives of the Department. Currently, three functional areas within the Post Office suffer acutely from lack of reliable information. These are personnel, operations and finance.

Three other information areas, equally important, are marketing, planning and general information. The six information categories were identified in the course of our work with the Post Office and each now represents a specific module within the Management Information System (MIS) proposed for the Post Office.

FIELD



HEADQUARTERS



QUERY
ADVISE
REPORT
EXPLAIN

THE MANAGEMENT INFORMATION SYSTEM CONCEPT

An information system must provide management with an information base that facilitates short- and long-range planning and at the same time, provides monitoring information on the Post Office's major operations and projects.

Definition of the Proposed System

There are countless interpretations and definitions of a management information system. Whatever the definition, it is important to recognize that a management information system does not imply nor does it demand the utilization of sophisticated data processing facilities. In many instances the process will be manual and should be computerized only when it can be justified.

The proposed management information system concept for the Post Office has been defined as follows:

"The Management Information System is an interrelated data flow through the organization for planning, executing and controlling the functional responsibilities. It provides information in accordance with prescribed schedules and permits retrieval of information as required.

In effect, it is the formal communications network of the organization."

The information flow envisaged for the Management Information System is illustrated opposite.

Function-Oriented Reporting

Management reporting produced from the MIS is designed to meet the needs of the various levels within the organization structure. Reporting is primarily function rather than product oriented, although the format of the reports permits product breakdown within a function when appropriate.

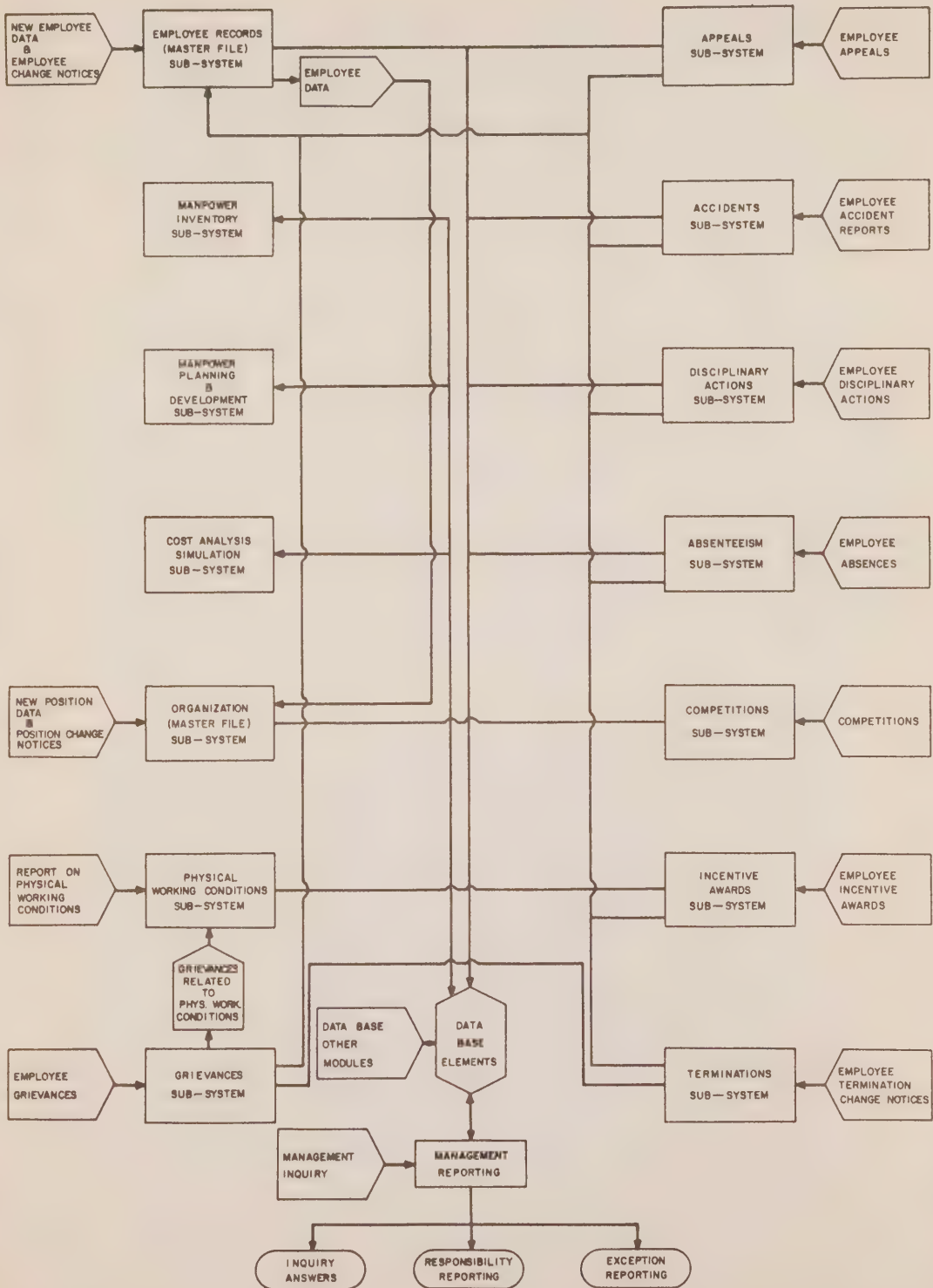
Management must be prepared to assign a value to individual reports and to reassess this periodically. If a report does not justify the time and cost of preparation it should be modified or eliminated. Ideally, the reporting format should be consistent with assignment of responsibility and accountability within various levels of Post Office management. Information generated, which may be compared to historical or forecasted conditions, should be focused on a specific function and provide the responsible individual with the current status of his area of responsibility.

Information Modules

The task force, comprising Post Office personnel and the consultant, worked closely with all levels of management up to the Deputy Minister to determine the requirements of the Management Information System and agree to the contents of individual modules and the priority for implementation. The MIS concept resulting from this work calls for the implementation of six information modules. These modules are conceived so that they can stand alone as reporting systems; at the same time flexibility is provided so that information can flow from one module to the other where appropriate. These and other features of the MIS are described later.

PERSONNEL INFORMATION MODULE

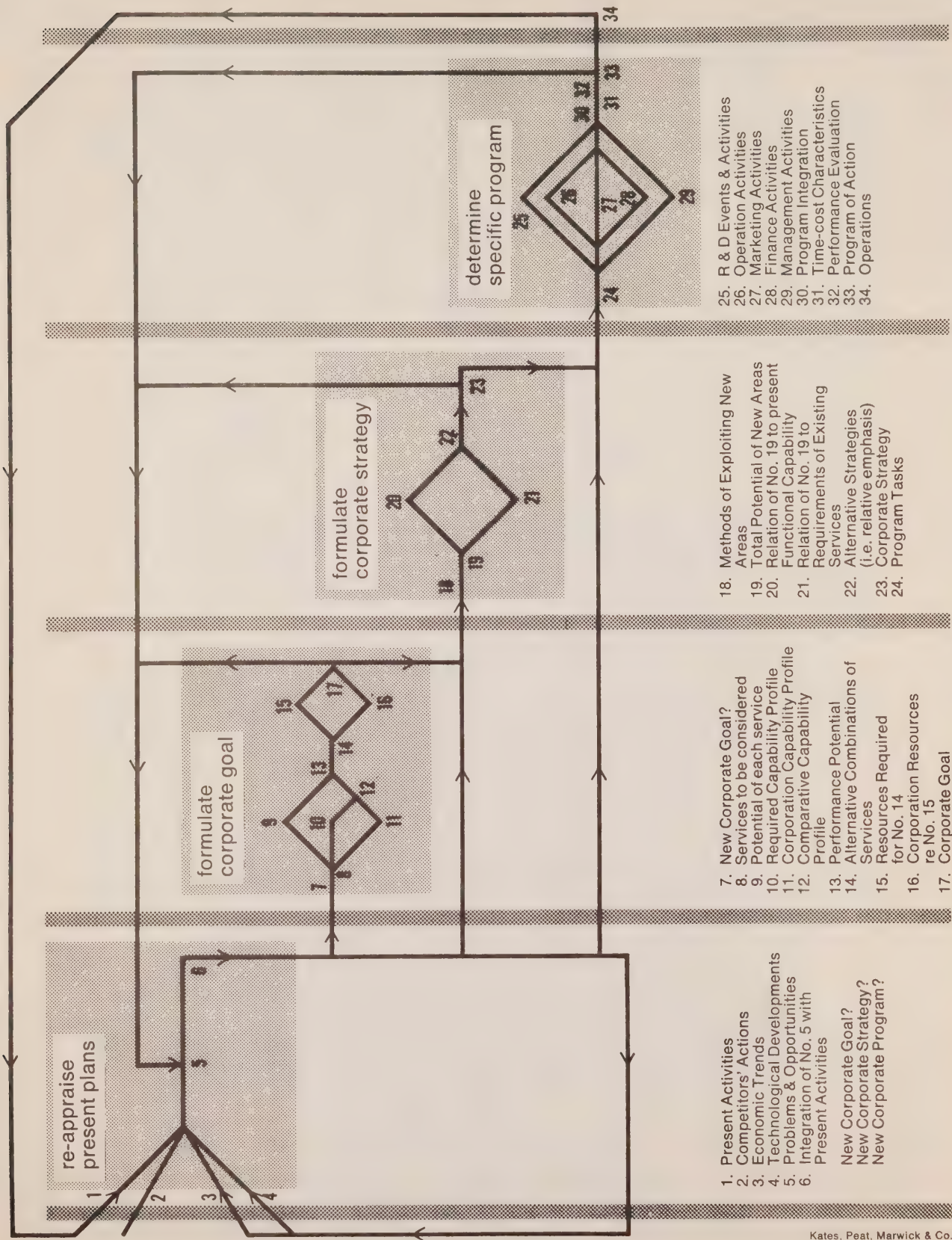
Integrated reporting system



The following is a description of the six modules. It should be noted here that these modules neither imply, nor intend to suggest, an organization structure. Further, it is vital that the Post Office recognize the true contribution that the MIS can make, accepting that the system above all else is intended to provide management with information on functional components from which data of a similar nature can be assembled and collated. Without such acceptance the integration of data cannot be fully effective and hence the information system itself cannot be fully effective.

The six modules developed are:

1. Financial Information Module (FIM). Data related to revenues, expenditures and costs will be assembled in this module. The prime purpose of the FIM is to provide accounting and financial management information summarizing the operations of the Post Office.
2. Personnel Information Module (PIM). Attainment of Post Office objectives rests with the human resources that can be provided, both in quality and in quantity. This module is of particular importance to the Post Office in that it will contain manpower inventories and provide for the analysis of manpower management, skills availability, grievance monitoring, personnel benefits program, etc. The illustration opposite portrays the report components of this module.
3. Operations Information Module (OIM). This module is dedicated to the gathering and compilation of all data relative to mail processing and postal services. Its primary purpose is to provide information by which the Post Office can monitor and evaluate the performance of the mail system overall on a current basis and keep informed on other areas such as the cost of mail processing, service evaluation, transportation and productivity within the Post Office.
4. Marketing Information Module (MIM). The Post Office has not provided marketing-oriented information to



its management group in the past. This area merits prime attention, particularly if the Post Office is to be commercially oriented. A separate study was carried out concerning the marketing needs and information requirements of the Post Office and these have been incorporated in the specifications for the MIM.

5. Planning Information Module (PLIM). This is the most complex information module. In effect, its purpose will be to create an automated planning process incorporating the strategic objectives of the Post Office and time frames up to ten years in the future. In addition, it will contain information pertaining to short-range management planning, although it is not intended to produce day-to-day planning information. The chart opposite depicts elements of the planning process.
6. Index Information Module (IIM). This module represents the foundation of legitimate information retrieval system. It will permit a user of the system to have, on a demand basis, access to a wide variety of information including directive activities, department manuals, project indexing, computer programming library and reference to alternative sources of information.

MIS Documentation

To assist the Post Office in both assessing the proposed MIS concept and implementing specific modules, a report summarizing the overall concept has been supplied along with individual books that describe in considerable detail the individual modules. The illustration opposite the next page indicates the contents of the individual module systems manuals. The first of these booklets was issued to the Post Office in May 1969 and implementation effort has commenced.

BENEFITS OF MIS

It is anticipated that the full Management Information System for the Post Office can be operational in 1975. As indicated in the re-



DESCRIPTION OF MIS DOCUMENTATION

- Purpose of manual
- Structure of a module
- Model information process
- Reporting levels
- Data base grid
- Management reporting
- Inquiry
- Controls
- Manpower requirements
- Numbering systems
- Sub system documentation

- The module and its purpose
- Module input
- Data base grid
- Management reporting

- Manpower requirements
- Numbering systems
- Benefits

FINANCIAL INFORMATION MODULE

PERSONNEL INFORMATION MODULE

OPERATIONS INFORMATION MODULE

MARKETING INFORMATION MODULE

INDEX INFORMATION MODULE

CANADA POST OFFICE — MANAGEMENT INFORMATION SYSTEM

MODULE DOCUMENTATION MANUAL

port on MIS, many man years of effort will be required. The advantages accruing to the Post Office from an effective information system are many and will yield benefits of both a tangible and intangible nature. In assessing the contribution of the MIS to the Post Office, it is important to note that the true value can only be measured to the extent that the management of the Post Office needs or wants it. The more significant benefits to the Post Office from the MIS will be:

1. Timely and Useful Management Reports. Responsibility and exception reporting will provide management with information on vital areas on a regular basis. The timeliness of the reporting is a major feature and will minimize the time lapse between problem identification and corrective action.
2. Performance Monitoring. Standards and limits will be applied to key activities in the Post Office. The automatic response to a variance or deviation from the standard on a particular project, operation or critical condition, will reduce the chances of failure or loss and will give management a better opportunity to respond.
3. Improved Public Service. The MIS has the capability to produce information to improve service to the public. This will be most evident in the areas of operations and marketing; however, it is anticipated that effects will be realized from the other modules.
4. Basis for Planning. Information will be available to management in an organized format to assist in short- and long-range planning. The manipulation within the system of current and historical data which is reliable will considerably assist the planning process.
5. Decision-making. The control exercised over the input and processing of data will result in reliable management reporting and permit the management group to make decisions from an information base which is reliable.
6. Utilization of Resources. The Management Information System can contribute effectively to improvement of service and profitability. The resources within the Post Office must make the maximum contribution to

these areas and both the control of such resources and the awareness of their availability are vital.

7. Efficiency. The integration of information within various modules will reduce or eliminate the repetitive handling, computing and recording of common data. It is anticipated that existing sub-systems will require considerable modification to facilitate day-to-day operation and this will contribute to improving the quality of information provided to management overall.

THE EFFECT OF MIS ON THE POST OFFICE

The introduction of a major information system such as the one proposed for the Post Office will have many and varied side effects. In the short term, the implementation and early operation of the MIS will place a greater demand on management time, particularly in the development of modules with which specific members of the management group are more closely associated. In the longer term, obviously, it is expected that the MIS will contribute to freeing managers' time enabling them to direct more attention to the operation of the Post Office.

Management will have to be prepared to adjust their style if the Management Information System is to be fully effective. After appropriate testing and parallel runs have taken place, management's confidence in the system should be high, enabling them to accept that data used or reports generated are reliable and accurate. In addition, they will become increasingly aware that their decisions or adjustments to information when fed into the MIS can have a significant effect on other components of the system. This heightened awareness will stimulate an upgrading of inter-

departmental communication and should contribute to better interfacing of management components.

The adoption of monitoring by exception reporting is implied in the MIS concept. Information produced by the system will indicate the need for corrective action; unless a manager fully accepts the quality of the information received, he may become hesitant in taking action and could lose valuable time if he were to attempt to check the validity of data.

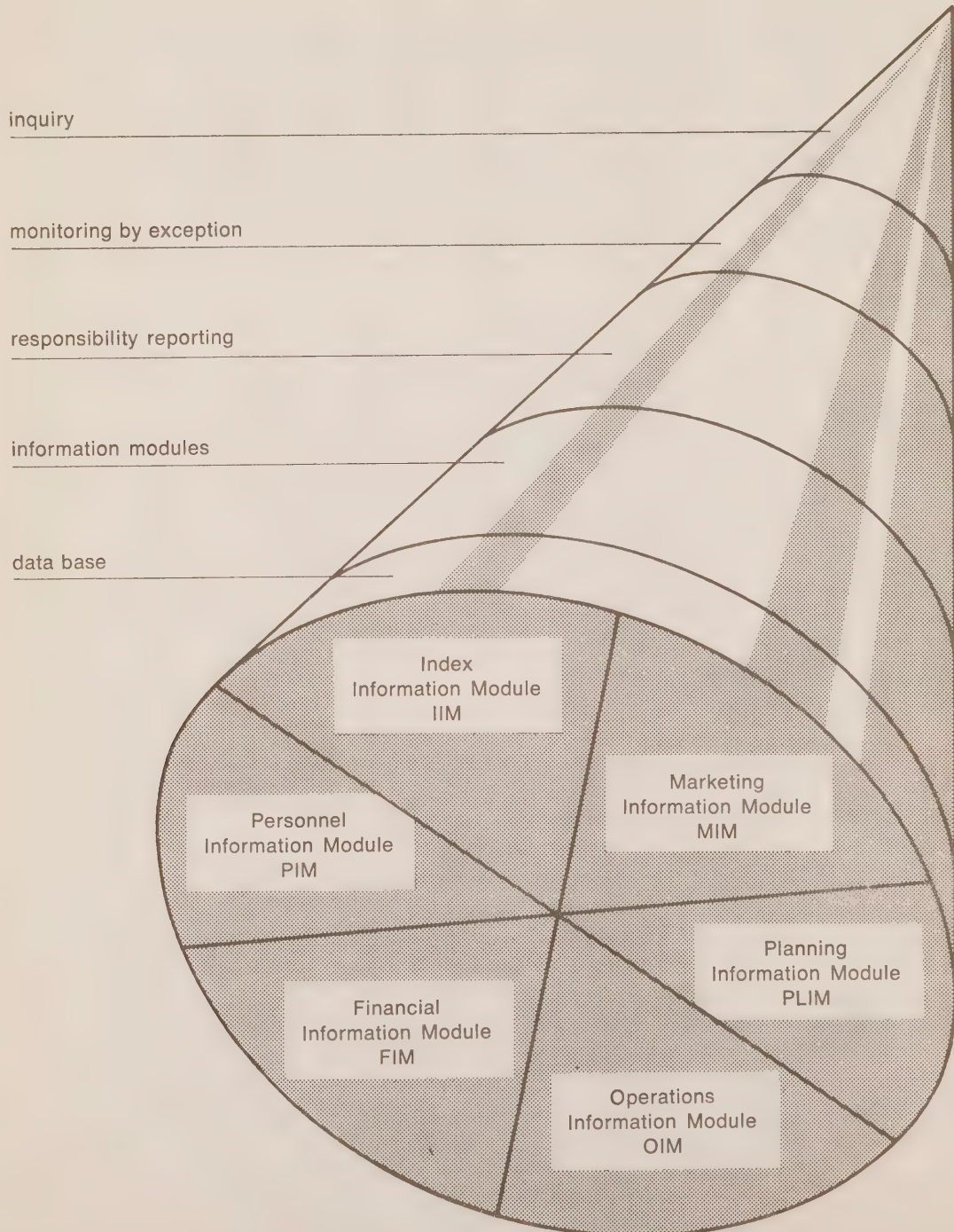
Considerable effort has gone into and will continue to go into the determination of the specifications of the Management Information System. One can expect that modifications will be required after implementation and before the full system's benefits can be achieved. Management must recognize their role in considering such modifications and contributing where possible to the better performance of the system. At times it will represent an inconvenience, but the overall objectives of the MIS must continually be borne in mind.

The distribution of management time will change. More time will be available to the manager to plan, analyze and evaluate the performance of his segment of the organization. When this happens, the MIS can be said to be truly effective. The decision-making process will be simplified and better focused.

Considerable adjustment is anticipated in the role of field management, once they have available to them the type of information supplied



Management Information System (MIS)



by the MIS. It is anticipated that field management will operate in an autonomous environment and will be kept alert to conditions that demand their attention.

AN EXAMINATION OF THE MIS CONCEPT

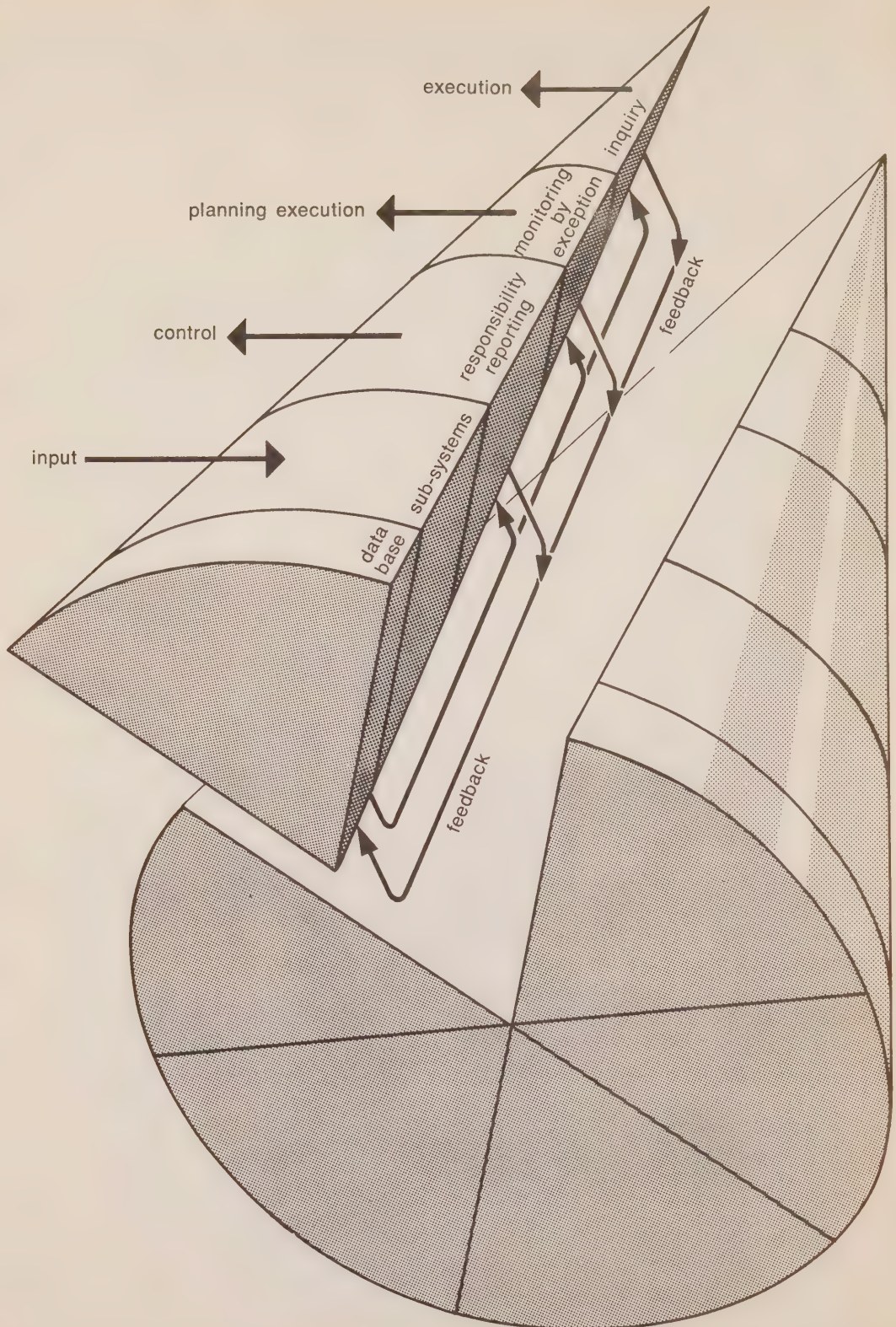
The design of the Management Information System has been geared to assemble data of similar nature into a module and thereby focus the information processing efforts in the Post Office. This approach was taken to permit independent operation of a specific information module while at the same time retaining the flexibility of allowing changes to other modules, and to permit the flow of data from module to module as required.

The chart shown opposite illustrates the relative volume of information that may exist within five sections of a module. The illustration is intended to depict the fact that the amount of information requested on a demand basis (inquiry) should be considerably less than the amount of data produced in responsibility reporting. The modules within the proposed concept are arranged according to specific classifications of information. Within each module there are five sections or capabilities;

1. Sub-system. These are routine applications or operations intended to fulfil a minor reporting need or to facilitate the preparation, processing and production of basic information. A sub-system may be clerical in nature producing summarized information for input into the information module.
2. Data Base. Data is collected and assembled in a logical format that permits the retrieval of information



STRUCTURE OF THE INFORMATION MODULE



as required for scheduled and non-scheduled reporting. Data can be manipulated within the data base to fulfil specific needs.

3. Responsibility Reporting. Information retrieval from the data base should be consistent with the delegation of authority to management members.
4. Monitoring by Exception. Quantitative information contained in the data base can be compared to sets of predetermined limits or standards. Deviation from these limits or standards will cause the automatic production of a report indicating the fluctuation and will therefore permit management to monitor or act on the specific situation.
5. Inquiry. Information stored in the data base will be arranged to permit retrieval on a demand basis by authorized management personnel under specific circumstances.

These five features have been provided within each of the information modules defined for the Post Office, in order to optimize the use of information assembled and at the same time permit the flow of data within the information network.

The Integration of Information Modules

Ultimately, it is envisaged that the system will be computer based and will make considerable use of data communication facilities. The information modules are designed so that they can be fully integrated to reduce duplication of effort, but more important, to provide the fullest type of reporting to management. It would be helpful to examine the flow of data within the MIS network. The chart opposite depicts an overview of the data flow. Basic data will be gathered from a wide variety of sources. For example, economic trends, market information, mail volumes, environmental factors, personnel statistics and similar data will be in-

puted into the system; once assembled under computer control, they will enable management to identify the ramifications or conditions that may be experienced upon the adoption of a recommendation, the emergence of a specific situation, or execution of a possible management decision. To permit the scope of information systems required for the Post Office, it is necessary that computer facilities be provided which are adequate, and that effective use be made of data collection devices and data transmission services.

IMPLEMENTING THE MANAGEMENT INFORMATION SYSTEM

The information system proposed for the Canada Post Office has immense scope and poses a significant challenge to the Post Office to accomplish implementation over the next five to six years. The need is urgent and the approach to implementation must be practical and realistic. A feature of a modular design is that it permits effort to be focused on one or two modules until they are operational, once the overall information concept has been accepted. As each module becomes operational the information flow expands and permits increasingly sophisticated reporting to be available to management. Management's capability and capacity to utilize the information system will maximize over a period of time.

The introduction of an integrated system does not lend itself to frequent change or modification to direction. It is vital that priorities be established at the outset, particularly the identification of information most urgently required. The Planning Board of the Post Office has selected the Financial Information Module as the one to be implemented

first. In selecting this module, the Planning Board concluded that the need for financial information was pressing and that the particular branch in the Post Office concerned with financial information was well equipped to utilize it.

There is an urgent need to supply information in virtually all classifications. These can be implemented in a short term on a sub-system basis. An example would be the implementation of a productivity reporting system, which would eventually become a segment of the Operations Information Module.

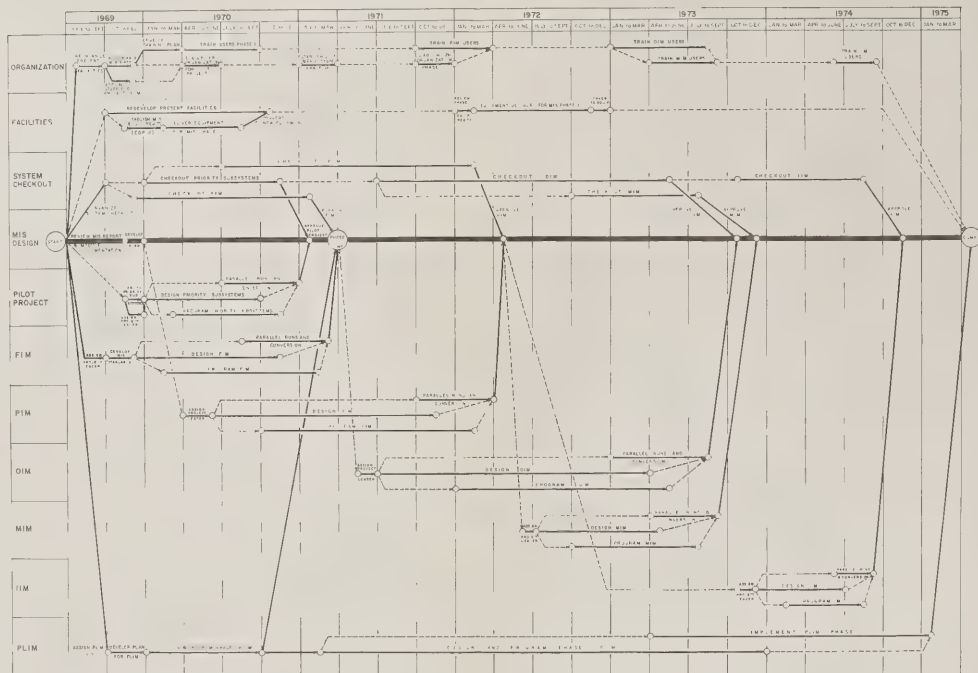
Organization for Implementation

It is neither practical nor economical to implement all modules simultaneously. We recommend that each module or sub-system be approached on a project-oriented basis and that careful consideration be given to staffing each project. In the case of the Financial Information Module, the project leader must have a strong financial orientation and possess capabilities in project management. At the present time it is recognized that considerable effort will be required to upgrade existing data processing facilities in the Post Office. It is important that this work be accomplished before any of the information modules are computerized.

In the development of the final specifications of the Management Information System, users of the reports, namely management members, must become actively involved for the following reasons:

1. Their Post Office experience must be merged with the creativity of the systems staff assigned to the project.

IMPLEMENTATION NETWORK CHART



2. They must ensure that the information system does not become overly complex and further, that their staff become fully familiar on a progressive basis with the input, output, controls, use of reports and the purpose of the system.
3. They must ensure that benefits from the information system are achievable, necessary and realistic.
4. They must expedite the required decisions within their realm of responsibility to ensure implementation plans are adhered to.

Implementation Program

A detailed work program has been developed calling for the Management Information System to be operational by 1975. The diagram opposite shows the various activities that must take place concurrently to achieve this date and further emphasizes the need for established priorities and management commitment to the overall task at the outset.

The permanent MIS organization required will be substantial and must include activities such as information control, project control and audit, and technical support in addition to the vital areas of system design, computer programming, computer operations. It is our view that the overall implementation of MIS and monitoring of the performance on a regular basis should be the responsibility of the Planning Board at the Post Office. In addition, we can see merit in having progress monitored independently either by an outside agency such as the Treasury Board or if necessary by consultants.

It is envisaged that by 1975 the annual operating cost of the MIS services area would be in the range of \$2.3 to \$2.9 million. This cost excludes keypunch staff and equipment. It approximately doubles the

present cost to the Post Office for this service, but would provide an information system capable of meeting the needs of Post Office management. To reiterate, lack of meaningful, accurate, timely management information has in the past greatly inhibited the effective performance of management.

THE FUTURE OF MIS
AT THE POST OFFICE

It is anticipated that the Management Information System will become the nerve centre of the Post Office. After 1975 one can envisage the use of visual displays located at major service centres; these would indicate, on demand or automatically, critical conditions within the over-all postal system such as peaks, delays, manpower or transportation requirements, and the like. Operational control centres would be established regionally and would permit greater control over the services offered within a region.

Marketing information, particularly the effect of servicing on major users as well as the general public, will be provided by the information service and will enhance the image of the Post Office in the eyes of the user.

The environmental forecast study indicated a changing role for the Post Office in the long term. An effective Management Information System will do much to ensure that this changing role is accommodated with minimum upheaval and will permit the Post Office to optimize its service to the public.

Chapter 9

AUTOMATION - AN OPPORTUNITY FOR COST
REDUCTION AND IMPROVED SERVICE

The Canada Post Office is labour intensive. We believe that tangible improvements to mail processing with associated reduction in operating costs are available to it. Major post offices in the world were contacted to determine the extent to which postal automation systems are being employed or considered; it was found that in most industrially advanced countries, considerable effort is being directed towards the introduction of automation.

Two basic concepts are being employed. One utilizes optical character recognition (OCR) wherein the characters positioned on the face of an envelope can be recognized by a reading device. The second concept, called marked mail, utilizes a code placed on the face of an envelope by a machine and subsequently, this coding can be recognized by a reading unit. The advantages and disadvantages of the two approaches have been reviewed and we have concluded that marked mail systems offer the best course of action for the Canada Post Office to follow in the next decade. Considerable promise does exist with the OCR principle; however, to date it is still being proved and we anticipate that it will not make its major contribution to the mail sortation activity until the 1980's.

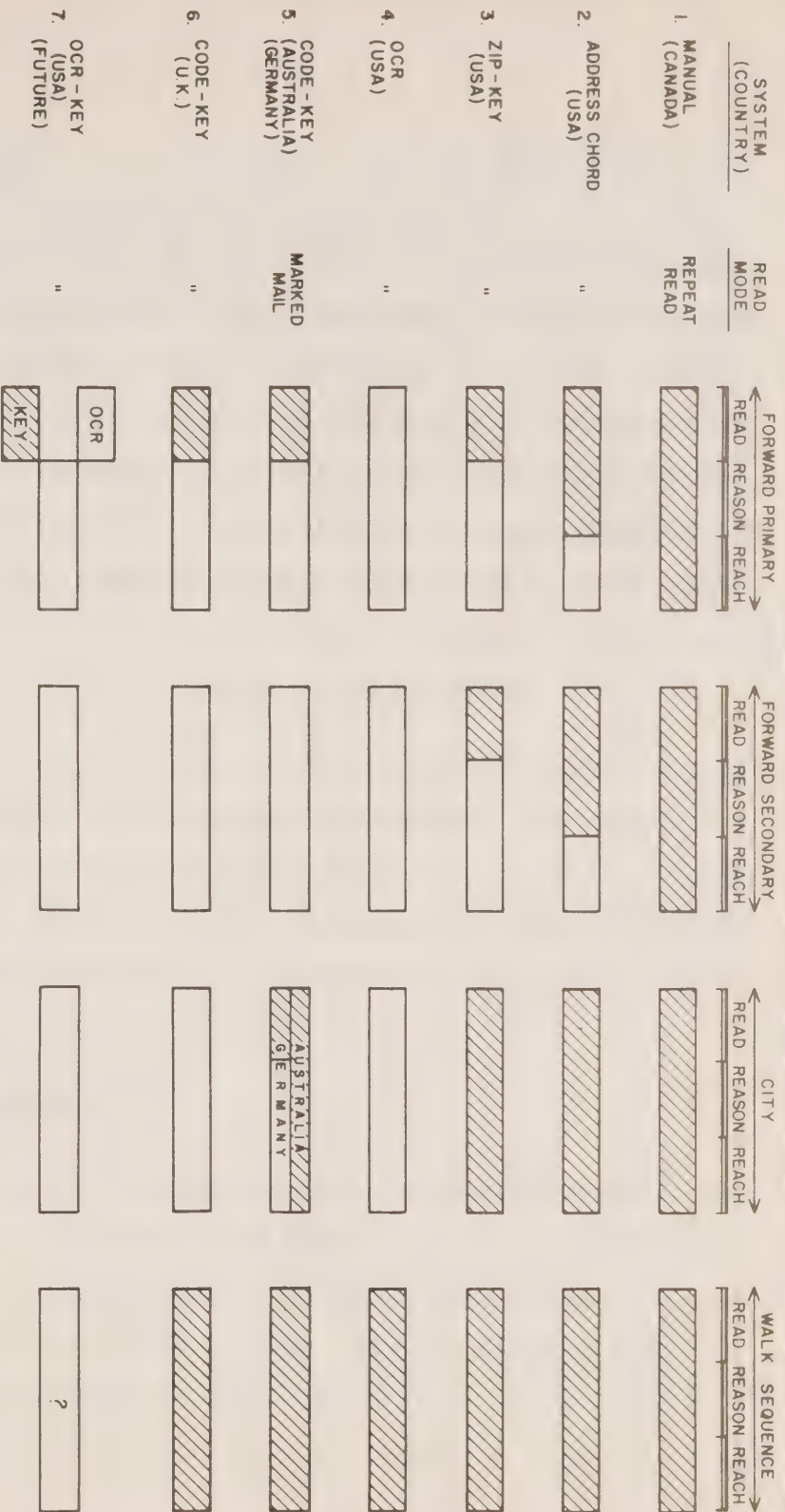
The Canada Post Office system is characterized by huge geographic areas, with volume processing being concentrated in a few major centres.

There are 14 centres in Canada that process in excess of 100,000 pieces of mail daily and it is at this level that automated equipment can begin to be considered. We have estimated that if automation equipment was introduced in the ten highest volume offices in Canada, savings could be achieved in the order of \$6 to 8 million per year.

The introduction of automation in a labour-intensive industry makes considerable sense from the standpoint of efficiency, cost reduction, etc. but brings with it considerable resistance to change. Resistance to change is of course inherent in the human being but could be particularly evident in those elements of the labour force that may be most directly affected by the introduction of automation. The introduction of automation on a large scale in the Canada Post Office has to be evaluated critically and the ramifications of such a change should be accommodated so as to provide minimum disruption to postal service and maximum benefit in the long term to employees.

We have recommended that a project team be formed as soon as possible to study in depth the implications of introducing automation and to develop a systems concept which will exploit its full potential. Automation, to be fully effective and to yield the type of benefits available from the standpoint of both improving productivity and satisfying the needs of the employee, will require that adjustments be made throughout the postal complex.

SORTATION STAGES



MANUAL OPERATION

MACHINE OPERATION

READ = ACT OF SENSING THE ADDRESS.
 REASON = ACT OF CORRELATING ADDRESS WITH SORT SEPARATION.
 REACH = ACT OF PLACING MAIL IN SORT SEPARATION POCKET.

Office. The difficulty is compounded due to delivery and dispatch schedules which present input and demand output peaks of mail; in this area, postal authorities can exert only limited control. An important quality of a mail processing system is its ability to match the complement of men and machines to the discontinuous nature of mail input and output flow demands. The sortation process is a highly logical one and therefore lends itself to machine processing. The introduction of automation equipment is primarily intended to minimize manual participation in the physical transport and machine loading operation.

The Sortation Process

The sortation task can be broken down into three constituent functions, namely, read, reason and reach. These are often known as the "three R's" of sortation. Read and reason are functions normally associated with the exercise of mental powers, while reach is of course physical in nature. The read and reason operations require intelligence and thinking ability to perform and without human participation cannot be efficiently accomplished at this time. The reach function, which includes the delivery of mail to the householder, within a post office can be automated readily, but in the pick-up and delivery area requires human participation. An evaluation of alternative concepts of postal automation must consider these three functions as they must be performed, whether by man or machine.

The chart opposite indicates in a general way the role of man and machines in the sortation process within selected countries. It can be seen that in Canada the total process is basically manual whereas other

countries are using or are in the process of introducing machines to handle certain areas of the fundamental sortation stages.

The United Kingdom has adopted the marked mail concept and is in the process of implementing this approach nationally. It has required the development of a six-character alpha-numeric code which provides the potential of sixteen million codes for the country. This represents a specific code for approximately every four persons in the country. It is hoped that this coding structure, when ultimately operational, will permit mail to be sorted to postal walk. The coding structure is highly complex and has required considerable effort to design. The postal coding system is therefore being introduced on a progressive basis, but it is anticipated that 80 major cities will be coded by the end of 1971 and the total scheme may be completed by 1975.

Each country considering automation has done so within the framework of its own requirements and has relied on the views of suppliers and its own experts. Naturally this has resulted in modifications to automated systems which are largely technical in nature or reflect the confidence that one country or the other has in a particular concept whether it is based on optical character recognition or marked mail or a combination of the two. It is the view of the study group from the Canada Post Office that marked mail offers the greater potential since it is a positive identification and, at this stage, the machine processing activity is more reliable than the OCR approach. The permanent project team recommended should be charged with the responsibility of critically evaluating automation and



1.44¢

1½¢

19.5%
cost reduction

1.16¢

1¢

½¢

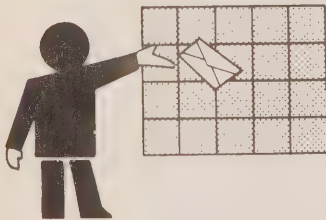
1½¢

1¢

½¢

6.9%
cost reduction

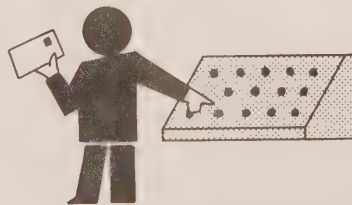
1.06¢



1

Traditional MANUAL
sortation

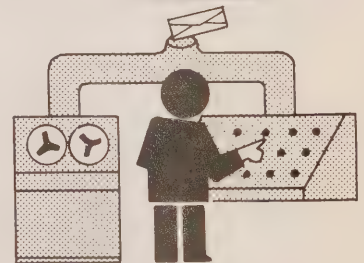
1.44¢



2

KEY CODE
sortation

1.16¢



3

OCR combined with KEY CODE
sortation

1.06¢

selecting a course of action that will yield the greatest benefits to the Post Office over the next ten years.

ECONOMIC IMPLICATIONS OF POSTAL AUTOMATION

The calculation of economic benefits due to automation is highly complex. The factors considered include reading rates, number of reading heads, average machine throughput, volume of mail, number of shifts worked, number of staff per shift, labour costs, machine costs, write-off of capital cost and other elements making up the total cost picture. Calculations carried out as a part of this study revealed that the cost of sorting an individual letter using optical character recognition coupled with key coding is 1.06 cents, the key coding (marked mail) sortation 1.16 cents and the traditional manual sortation which is now in effect at the Canada Post Office 1.44 cents. The chart opposite schematically portrays the results of these calculations and shows that the greatest savings available to the Post Office on a percentage basis would be to move from the manual sortation to the key code sortation approach. Currently, the key code sortation is more reliable and we believe represents the best course of action for the Canada Post Office to follow. As indicated earlier, the application of these cost figures to the current volumes processed by the Canada Post Office generates a potential annual saving in excess of \$6 million per year if automation is effectively introduced in ten of the major processing centres.

Entered as Second-Class Matter, May 2, 1882
Postoffice at Chicago, Ill., under No. 363
Acceptance for mailing at special rate of postage provided for in Act of October 3, 1917
Authorized by Act of October 3, 1917

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Printed at the Chicago Press and Publishing Co., Chicago, Ill.

Second-class postage paid at Chicago, Ill., and at additional mailing offices

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IMPACT ON PERSONNEL

Postal automation will result in the reallocation of existing duties and in the opening of new opportunities. As emphasized elsewhere in the report, the co-operation and understanding of the unions in such endeavours by the Post Office are essential to optimizing the contribution of the postal system to Canada and to upgrading the skills and capabilities of the employees. The introduction of automation will require intensive staff training programs to fulfil new skill requirements including keyboard operators for coding desks, electro-mechanic maintenance technicians and computer program maintenance staff. Most of these activities can be taught to the employees. Activities demanding intensive computer or sortation equipment knowledge will undoubtedly have to be hired by the Post Office from outside.

The goal of postal automation is service and cost efficiency. The introduction of mechanization into a single terminal normally requires in excess of two years, and the Post Office should by means of natural turnover be able to accommodate any imbalances in employment opportunity that may exist at the end of this period.

Psychological Impact

Since World War II sophisticated mechanized systems have been introduced into industry. This phenomenon is widespread and if companies have not been sufficiently progressive in this respect, they are often regarded by their staff as being old-fashioned. The Canada Post Office has not kept abreast of the automation surge and does not appear to offer

postal service workers the desired social status. While there is an element of job security fear in the attitudes of postal staff, there undoubtedly rests a strong desire to see their organization move ahead with the times. Carefully pursued, the introduction of automation would increase employee identification with the purposes of the service and the overall psychological impact on the employees could prove to be a very real, tangible advantage. It is realistic to assume that workers in mail processing, rather than possessing specialized knowledge of the workings of a postal system, can acquire skills related to keyboard operation and machine servicing which are more marketable in industry at large. Thus, while the Post Office will become less staff dependent, at the same time the staff will become increasingly less employer dependent. This contributes to worker mobility and may well introduce a more satisfactory overall management/labour relationship.

The Canada Post Office's
Responsibility to the Country

The introduction of automation to the Canada Post Office is vitally needed if total annual expenditures are to be better controlled and if postal service to the country is to consistently meet current needs. The Canada Post Office is rapidly approaching the point where totally manual systems will no longer be adequate. The change to automation should be undertaken with the objective in mind of equipping the Canada Post Office to fulfil its responsibilities to the country while at the same time upgrading the work content, morale and job satisfaction of postal employees. For the Canada Post Office, dollar savings, while significant, must be secondary

to its wishing to take its position alongside the other major postal systems in the world.

CANADA POST OFFICE

A BLUEPRINT FOR CHANGE

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CANADA POST OFFICE

A BLUEPRINT FOR CHANGE

APPENDIX A

APPROACH USED FOR FORECASTING
EXPENDITURES AND REVENUES

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THEORY OF THE EARTH AND ITS HISTORY

The theory of the earth and its history is a branch of geology which deals with the origin and development of the earth and its various parts. It is a science which seeks to explain the processes which have shaped the earth and its features, and to determine the sequence of events which have taken place since the earth was first formed. The theory of the earth and its history is based on the study of the earth's rocks and fossils, and on the principles of geology. It is a science which is constantly developing, as new discoveries are made and new theories are proposed. The theory of the earth and its history is a branch of geology which deals with the origin and development of the earth and its various parts. It is a science which seeks to explain the processes which have shaped the earth and its features, and to determine the sequence of events which have taken place since the earth was first formed. The theory of the earth and its history is based on the study of the earth's rocks and fossils, and on the principles of geology. It is a science which is constantly developing, as new discoveries are made and new theories are proposed.

MAIL VOLUME FORECASTS

Category of Mail Service	1967/68 (actual)	1970/71	1975/76	1980/81	1985/86	1990/91	1995/96
----- (IN MILLIONS OF PIECES) -----							
1st Class	2,586	2,800	3,200	3,400	3,600	3,800	4,000
2nd Class	694	560	590	620	650	680	720
3rd Class	1,331	1,600	2,100	2,800	3,200	3,600	4,100
4th Class	97	93	102	111	121	132	144
C.O.D.	8	5	5	4	4	4	4
Registration and Money Packets	20	22	25	28	31	35	39
Special Delivery	4	4	5	5	6	7	7
Government Mail	258	295	340	380	420	450	490
TOTAL	4,998	5,379	6,367	7,348	8,032	8,708	9,504
Rounded Totals	5,000	5,400	6,400	7,300	8,000	8,700	9,500
Annual Increase, %	2.6	3.5	2.7	1.8	1.7	1.7	

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APPROACH USED FOR FORECASTING
EXPENDITURES AND REVENUES

This Appendix deals with the approach used for:

- forecasting mail volumes
- forecasting expenditures
- determining the extent of savings
- forecasting revenues
- determining subsidies
- analyzing expenditure and revenue curves.

FORECASTING MAIL VOLUMES

Mail volume forecasts were established from short- and long-term forecasts prepared by the operations research and cost ascertainment personnel of the Post Office, with adjustments to these volumes as detailed in the report entitled "Environmental Forecast Study". However, in that report, the change in the second class volume due to the recent rate increase was based on tentative estimates by the Post Office. Since then more accurate estimates based on volume counts have become available, and have been used here. The table opposite shows the forecasts used in this analysis.

FORECASTING EXPENDITURES

As most employees and facilities in the Post Office handle more than one class of mail, a breakdown of expenditures by class of mail is subject to the policy on which such a breakdown is based. Although this

serves well for accounting purposes, it may be inadequate as a base for long-range forecasts of expenditure. For example, if cost allocations to a rapidly growing class of mail, e.g., third class, were too high, then cost forecasts would be inflated.

For this reason a different cost breakdown was used. Expenditures as listed by cost ascertainment under:

- administration
- operations
- transportation
- finance

were broken down into the following functional expenditure categories:

- administration, headquarters and district
- administration, postal terminal level
- mail processing and wickets
- letter carriers
- transportation
- accommodation.

The expenditures in each of these categories were determined from the cost ascertainment report. The figures for 1967/68 were used as the basis in the forecasts, which were subsequently adjusted to agree with the 1968/69 figures, when these became available.

If the Post Office were constituted as a Crown corporation, it may be subject to taxes. The expenditure due to this has not been included in the forecasts.

Each category was forecast separately. The method used for each is discussed below.

Administration
Headquarters and District

The number of pieces of mail per annum per employee in this overhead category was determined for each year from 1962/63 to 1967/68. These figures, which are a measure of performance, showed an average decrease of 2.2 per cent per annum. It was assumed that this trend would continue during the forecast period.

Expenditures were based on the 1967/68 figure, increased in proportion to total mail volume, reduction in performance and an annual increase in salary level of 6 per cent. The latter can be taken as representing 3 per cent inflation and 3 per cent growth in real income.

Administration
Postal Terminal Level

The forecast of this category was performed in the same way as described under "Administration, Headquarters and District". In this case no reduction in performance was observed or taken into account, it being assumed that this overhead would remain at its present relative level.

Mail Processing
and Wickets

The costs of mail processing and wickets were combined since the same personnel work in both areas, making a true allocation of cost impractical and probably misleading.

Forecasts of this expenditure were also based on the approach described under "Administration, Headquarters and District". The employment in the revenue offices was included in this category. This assumes that postmasters in these small offices spend the major part of their time on mail processing and wicket services, rather than administration.

The number of pieces of mail per employee per annum, based on the employment which includes that in revenue offices, shows an average increase of .5 per cent per annum.

Letter Carriers

It was assumed that the number of points-of-call, rather than mail volume, determines the cost of letter carrier delivery. The growth of the number of points-of-call depends on the population increase in communities which today have letter carrier delivery, and on the total population in those communities which will receive this service in the future.

Exact population figures for these communities are not available, but from figures of urbanization obtained for the environmental forecast study, it can be deduced that most of the population increase occurs in communities large enough for letter carrier delivery. The increase in letter carriers over the past six years has been one for every 710 population increase. Adjusted for five-day delivery the figure is 850.

Increases in the mail volume per capita are assumed to be compensated by a larger proportion of apartment dwellings.

The number of letter carriers was forecast using the ratio of one letter carrier for every 850 of population increase. Population forecasts developed by the Economic Council of Canada were used in the forecast.

Costs were forecast in proportion to the number of carriers, using 1967/68 as a base. An annual increase in labour costs of 6 per cent was then applied to these forecasts.

At times the Post Office may grant salary increases in excess of the 6 per cent per annum used in this analysis. Such increases must, however, be directly tied to productivity, which would leave expenditures unaltered.

Transportation

Transportation costs are more subject to uneven growth from year to year than other costs incurred by the Post Office. The main cause of this is that transportation services are often contracted out for more than one year. Trend projection therefore requires a cost history over a long period. Changes in transportation modes used by the Post Office, however, make this unreliable.

No information which would assist in forecasting transportation costs was available. In light of the above, a theoretical approach was chosen. Transportation costs were divided into:

- intercity

- intracity
- rural.

In each case, the costs are made up of two parts:

- labour portion
- non-labour portion.

The labour portion is the direct labour cost and labour-related fringe benefits. The labour portion per piece of mail will change in proportion to:

- inflation
- growth in real income
- labour efficiency change.

The non-labour portion is mainly equipment cost. This cost per piece of mail will change in proportion to:

- inflation
- equipment efficiency change.

No information on most of the above factors nor on the breakdown into labour and non-labour portions was available. One of the reasons for this is the heterogeneous nature of the modes of transportation and contracting companies.

In the forecast the following values were assumed:

	Labour Portion Per Cent	Inflation Per Cent Per Annum	Real Income Per Cent Per Annum	Efficiency Per Cent Labour	Increase Per Annum Non-Labour
Intercity	30	3	3	1	2
Intracity	60	3	3	.5	1
Rural	70	3	3	-	-

All mail was assumed to be transported on intercity routes except 40 per cent of all first and third class mail, which represents that portion of the mail with a destination in the same city of its origin. The average of this for first class mail has been 35 per cent in the past.

In 1970 about 25 per cent of the population is expected to live in centres of less than 1,000 population. It can therefore be assumed that about six million people are served by rural transportation. This figure will remain at that level, as all growth will take place in larger centres. Based on the average pieces of mail per capita, the rural mail volume was determined.

All mail which was not rural, was considered to use intracity transportation.

With these mail volumes, the 1967/68 cost per piece was calculated, which was then forecast as described above. These forecasts mul-

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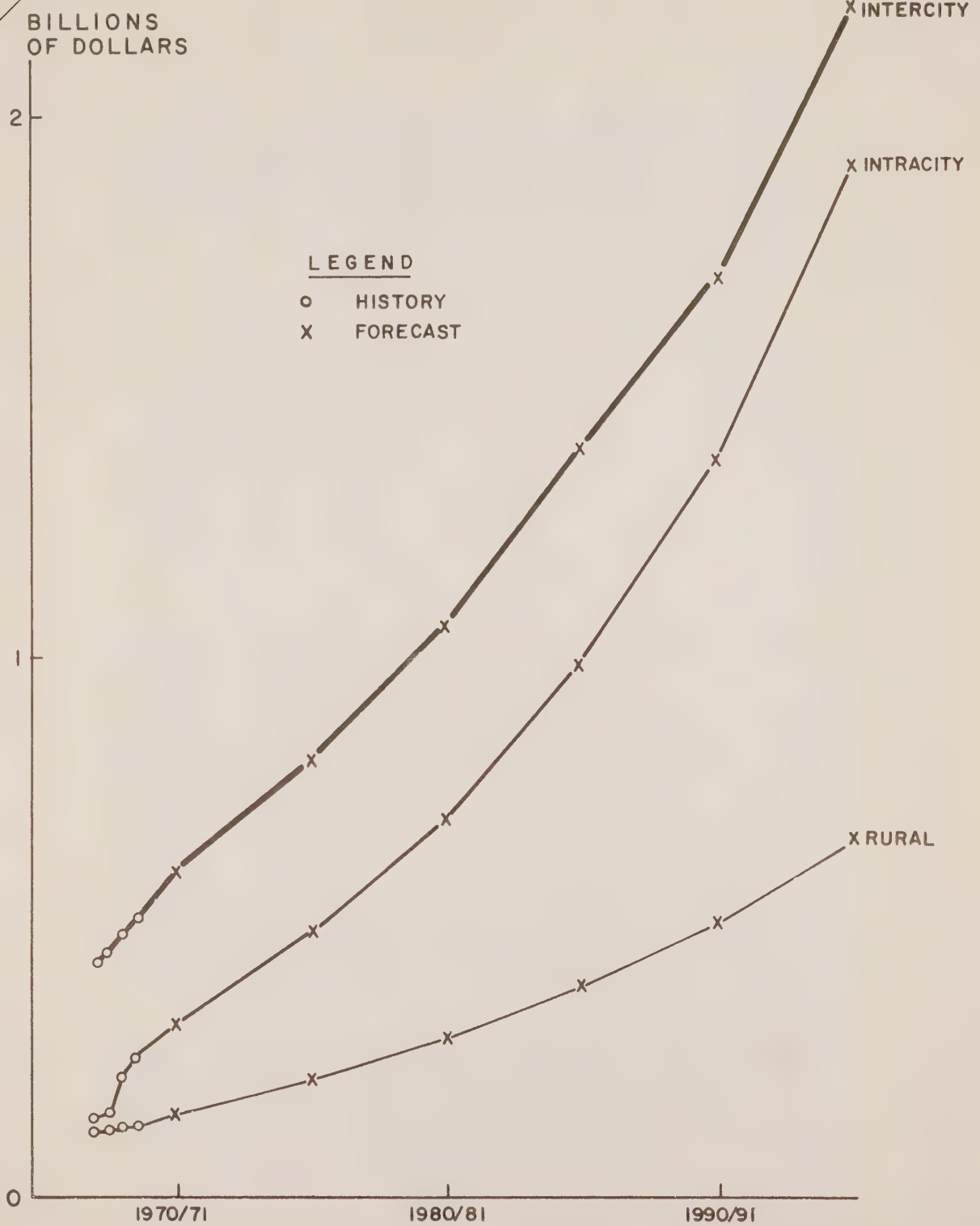
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tiplied by the respective forecasts of mail volume produced the transportation cost forecasts. The graph opposite shows the results.

The forecast for the intracity transportation cost is the most uncertain, owing to the large number of unknown factors which bear heavily on these costs, such as the extent and density of urban sprawl, the future number and location of postal terminals within metropolitan areas, and the congestion of the transportation systems. Therefore, this portion of the transportation cost should be treated with caution.

Accommodation

Over the past few years, on the average 508 pieces of mail were handled per square foot of total accommodation. This relationship was assumed to hold until 1995. From this the floor space requirements were determined.

In April of 1969 the Department of Public Works estimated market rental rates for the accommodation occupied by the Post Office for the years 1968/69 to 1971/72 and beyond. The rates include the interest on the capital employed. These forecasts of the rates increase at 4 per cent per annum.

In the forecast, costs per square foot have been increased at this rate up to 1995.

With forecasts of the total space requirement and the cost per square foot, the total cost for accommodation was calculated.

DETERMINING THE
EXTENT OF SAVINGS

All forecasts of expenditures as described in the preceding pages were based on the assumption that the Post Office will continue to operate in the same way as it has done during the past five to ten years. No changes in organization, mail handling and transportation procedures were considered. The Post Office cannot, nor should it be construed that we believe the Post Office would continue to operate without changes up to 1995. This mode of operation was used only as a basis of forecasting. This projection forms a norm from which changes due to other operating procedures can be measured.

Anticipated reductions in expenditures from changes in the procedures have been indicated in studies which were a result of the "Priorities for Action" report. Forecasts of total expenditures which include these savings have been prepared. These forecasts include savings from:

- organization study
- productivity study
- transportation study.

The area of mail sortation has a potential for great savings. However, it is difficult to quantify these. No savings from this area have been included in the forecast.

Furthermore, no savings from the personnel and the facilities design studies have been included as none were quantified.

Savings from
Organization Study

No specific savings can be calculated from the proposed new organization structure. It is, however, believed that the performance of the administration in Headquarters, districts and the new regions will not decrease. Therefore, as a result of the organization study, the 2.2 per cent annual decrease in performance has been removed from the forecast of the administration costs for Headquarters and districts.

Savings from
Productivity Study

The report of the productivity study anticipates an "initial and short-run improvement of at least five per cent" in the activities of mail sortation and processing. No estimate of the benefits which will derive from a continued and steady long-run growth in productivity was available.

Cost reductions from the initial improvements only were included in the forecasts of this study. These were calculated as 5 per cent of the forecast costs of mail processing and wicket services.

Savings from
Transportation Study

The savings in transportation costs were based on the report of the transportation study. It was assumed that the savings given in that study were based on 1969/70 conditions. These savings can, however, be realized only at the expense of service. Therefore, the savings have been reduced to a level where it is believed that service can be main-

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FORECAST EXPENDITURES
WITH AND WITHOUT SAVINGS

YEAR	EXPENDITURES WITH NO CHANGE IN OPERATIONS	EXPENDITURES WITH ALL SAVINGS INCLUDED IN THIS ANALYSIS
<u>(IN MILLIONS OF DOLLARS TO NEAREST \$10 MILLION)</u>		
1975/76	810	780
1980/81	1,210	1,130
1985/86	1,780	1,650
1990/91	2,530	2,320
1995/96	3,680	3,300

Kates, Peat, Marwick & Co.

tained at least at the present standard. The following savings were included:

Intercity:	Air transportation savings	\$2.50 million
	Phasing out of Railway	
	Post Offices	<u>\$1.35 million</u>
	For a total of about	<u>\$3.8 million</u>
	Savings allowed in analysis	\$2.5 million
Intracity:	Street letter box clearing	\$1.5 million
	Letter carrier conveyance	<u>\$.4 million</u>
	For a total of about	<u>\$1.9 million</u>
	Savings allowed in analysis	\$1.0 million
Rural:	No savings	

Saving from Automation

A conservative estimate of the potential savings that would be available in 1970/71 if automation facilities were in existence at that time was used as the base for forecasting savings from automation up to 1995.

The 1970/71 estimate shows a saving of 20 per cent of the mail processing cost of letter-sized first and addressed third class mail if 50 per cent of this mail is handled by automatic equipment.

This estimate was based on the current state of the development of automation equipment. With improvement in the equipment, the per cent saving will increase. It was assumed that the percentage would gradually increase to 30 per cent in 1995.

Due to increasing urbanization, which will result in more mail being handled in large terminals, the proportion of mail handled by automatic equipment will increase. It was assumed that the proportion would gradually increase from 50 per cent to 60 per cent in 1990.

Only savings from culling, facing, cancelling and sorting of letter-sized mail were forecast. No estimates of the savings from other automation, such as parcel sorting, are included. To allow for the implementation of automation only 60 per cent of the potential savings in 1975/76 were assumed.

Impact of Savings

The table opposite shows the total expenditures with and without savings.

The total savings of \$380 million in 1995/96 approximate 10 per cent of the total expenditures forecast for that year. Therefore, these savings, though very important, contribute little towards any stabilization of postal rates. Increases in postal rates seem to be the main tool the Post Office has to maintain its operations near the break-even point.

It should be pointed out, however, that the savings included in this analysis are only those whose nature and magnitude are known today. Savings may result from the mail sortation and personnel studies but have not been included. Their nature is known but their magnitude cannot be determined at present. Beyond that there may be large unexplored areas

of savings. No major innovation in the methods of postal operations has occurred during the past 25 years but this by no means implies that during the next 25 years none will occur. The impact of all these yet unknown savings could be significant. Any estimates, however, would be completely speculative.

FORECASTING REVENUES

Revenues were forecast by category of mail, using mail volume forecasts and the revenue per piece as established by cost ascertainment for classes or sub-classes of mail.

It was assumed that the proportion of sub-classes of mail within a class will be at the level forecast by cost ascertainment for 1974/75 throughout the forecast period. For example, domestic first class letters of less than one ounce were assumed to make up 89 per cent of total first class mail from 1970 to 1995. Post Office forecasts up to 1974/75 show little change in these proportions.

The figures for revenue per piece provided by the Post Office are for the present postal rates.

There are an infinite number of possible alternative rate structures. Alternative rate structures for this analysis, however, were based on the present one, with rates for different classes kept in the same proportion to each other. This approach makes it easy to grasp the significance of the different rate structures. For example, in a rate structure which includes an eight cent first class letter, all rates are about 33 per cent higher than at present. This method implies either that the

relationship of rates between classes is equitable in the present rate structure or that any present inequities would be carried through to the end of the forecast period.

Alternative rate structures are designated by the rate for first class domestic letters weighing less than one ounce: e.g. 7¢, 12¢, 20¢, etc. Rates for all classes and sub-classes are increased in direct proportion.

Rate increases in the future will not necessarily follow this pattern. These rate structures do, however, give an indication of the general level of postal rates that would be needed to produce the indicated revenue.

It was assumed that rate increases would be introduced in small enough steps that their effect on mail volume would not be substantial.

The revenue received from money orders, which in itself is not significant, was treated differently. It was assumed that revenues would be in proportion to the face value of money orders. It was considered unrealistic to charge 63 cents for a \$1.00 money order under a 25 cent rate structure. This rate structure only becomes a feasibility in 1995, when, owing to inflation, one dollar money orders will not be in use. Therefore, increase in revenue from money orders was taken to be entirely due to inflation.

The history of the past nine years has shown a constant volume of money orders with their average face value increasing at approximately

1. The first part of the paper discusses the importance of the study of the history of the United States. It is argued that a knowledge of the past is essential for a full understanding of the present and for the development of a sound policy for the future.

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FORECAST REVENUES WITHOUT SUBSIDIES

Rate	Y E A R				
	1975/76	1980/81	1985/86	1990/91	1995/96
	(IN MILLIONS OF DOLLARS)				
6¢	570	630	690	750	820
7¢	660	740	810	870	960
8¢	740	840	910	990	1,080
9¢	850	940	1,030	1,110	1,210
10¢	930	1,040	1,130	1,230	1,340
12¢	1,110	1,250	1,350	1,470	1,600
15¢	1,380	1,560	1,700	1,840	2,000
18¢	1,660	1,870	2,030	2,200	2,400
20¢	1,850	2,100	2,250	2,450	2,700
22¢	2,010	2,280	2,470	2,680	2,920
25¢	2,310	2,600	2,820	3,060	3,340

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the rate of inflation. This trend was assumed to continue to 1995 at an average annual rate of inflation of 3 per cent.

Revenue from what is classed as "other services" by the Post Office was determined as a percentage of total revenue. This percentage has increased over the past four years from 1.9 to 2.6 per cent. Post Office forecasts of revenue up to 1974/75 show an average of 2.1 per cent. A value of 2.5 per cent was used in the forecasts in this analysis. Other services include:

- collection of Government annuities
- sales of unemployment insurance stamps
- migratory bird permits
- philatelic services
- lock box rentals
- foreign transit and miscellaneous.

The table opposite shows the total revenues forecast for different rate structures.

DETERMINING SUBSIDIES

The Post Office provides some services which are highly uneconomical but in the interest of the country as a whole. We have examined the effect on the revenue if the Government were to subsidize these services to the amount of the difference between their cost and the revenue received from them. The services examined were:

- second class mail
- mail service to the northern regions.

Second Class Mail

The distribution of news has always been considered by the Canadian Government as being in the interest of the country. For this reason, rates for second class mail have been far below the cost incurred for handling it. Funds covering this deficit have been included in total appropriations. It is suggested here that the Government should subsidize second class mail directly, as the dissemination of news is the responsibility of the Government and not of the Post Office. The Post Office is only a vehicle of dissemination.

Estimates of this subsidy have been prepared. These subsidies are the estimated differences between cost and revenue.

Costs were based on the forecasts of the different cost-categories:

- administration, headquarters and district
- administration, postal terminal level
- mail processing and wickets
- letter carriers
- transportation
- accommodation.

The proportions of these costs which are due to second class mail were taken from the 1967/68 cost ascertainment report and adjusted for each year for the respective ratio of pieces of second class mail to total mail volume.

The table below shows the estimate of the second class mail subsidies that would be required in particular years.

Year	Subsidy (\$ million)
1975-76	33
1980-81	43
1985-86	63
1991-92	88
1995-96	131

The figures are based on the assumption that:

- second class mail rates maintain the same relationship to other mail rates as they did in 1969
- postal rates are adjusted periodically in line with increases in expenditure.

Without this subsidy, postal rates for either second class or all mail would have to be set at a level which would generate sufficient revenue to cover the cost of the service that is provided.

Mail Service to the Northern Regions

The provision of mail service to sparsely populated areas is more costly per capita than it is to densely populated areas. A commercial operation would not choose to provide a service of this kind to the northern regions of Canada.

POPULATION DENSITY



LEGEND

- 1-5
- 5-9
- 10-59
- 60-OVER

It is, however, in the interest of the country as a whole that the northern regions be developed and the provision of a mail service is one of the prerequisites of civilized settlements. The Government may therefore wish to subsidize the mail service into these areas.

First, the area in which mail service should be subsidized must be defined. The map opposite shows the population densities of Canada based on the 1961 census. The heavy line shown was drawn from the:

- B.C. - Alaska border along 57° North to 115° West
- 115° West " 55° North to 100° West
- 100° West " 52° North to 95° West
- 95° West " 51° North to 85° West
- 85° West " 50° North to Atlantic

The population density south of this line is nearly 20 persons per square mile, as compared to the overall density of 5.1 per square mile.

A density of 20 persons per square mile is low compared to the population density of other countries with developed postal services; for example:

U.S.S.R.	25
Norway	27
Sweden	43
U.S.A.	60
U.K.	560
Netherlands	815

Only one country with a developed postal service has a density less than Canada's 5.1, and that is Australia with 3.5 persons per square mile.

Mail service to points north of the line might be subsidized.

Costs of providing mail service to points north of the line were determined. These are:

- transportation (1969/70) \$4.6 million
- salaries (1967/68) \$.9 million

The revenue received from the 400 postal stations north of the line was about \$1.9 million in 1967/68.

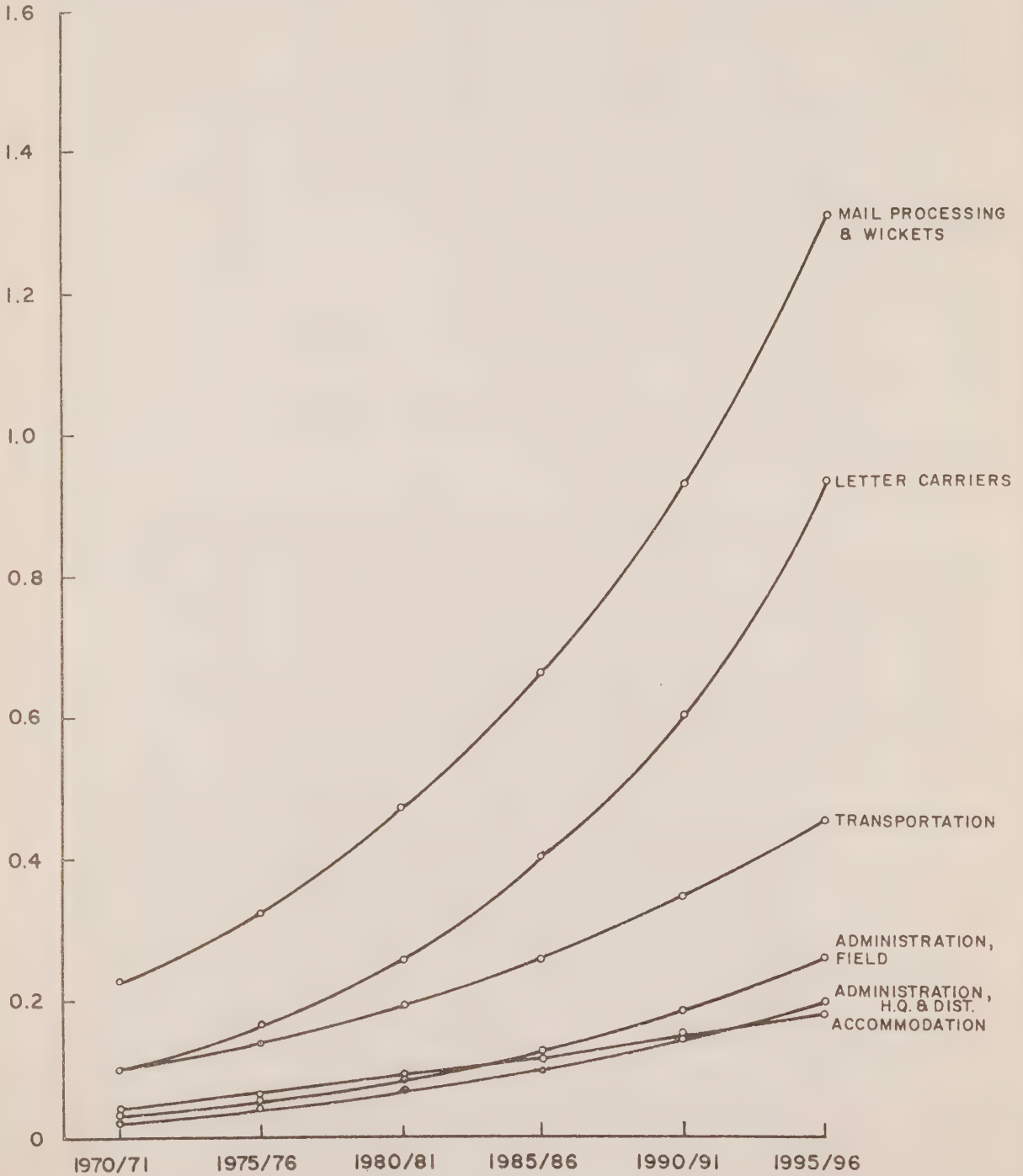
It was assumed that points north of the line develop at the same rate as Canada as a whole, so that costs and revenues could be taken as the same percentage of the total revenue and expenditure forecasts.

The subsidy is the difference between the cost and revenue. The table below shows the forecast subsidies for various years:

Year	Subsidy (\$ million)
1975-76	4.0
1980-81	4.9
1985-86	6.5
1990-91	6.9
1995-96	8.7

FORECAST EXPENDITURES BY FUNCTIONAL ACTIVITY

IN BILLIONS
OF DOLLARS



Without subsidy, postal rates would have to be set at a level which would generate sufficient revenue to cover the cost of facilities that are provided.

Letter Carrier Delivery

The graph opposite shows the forecasts of the expenditures in the six functional categories. All savings have been deducted. The graph clearly shows that the expenditure for letter carriers is expected to increase at a much faster rate than that of any other category. It made up 19 per cent of total expenditures in 1967/68, and will grow to 25 per cent in 1995/96.

This rapid growth in the expenditures for letter carrier delivery is due to the rapid urbanization of Canada. Letter carrier delivery is more costly per household than either rural route delivery or lock boxes.

This area therefore warrants examination for either a reduction in service or a rationale for rate increases or subsidies from the Federal Government.

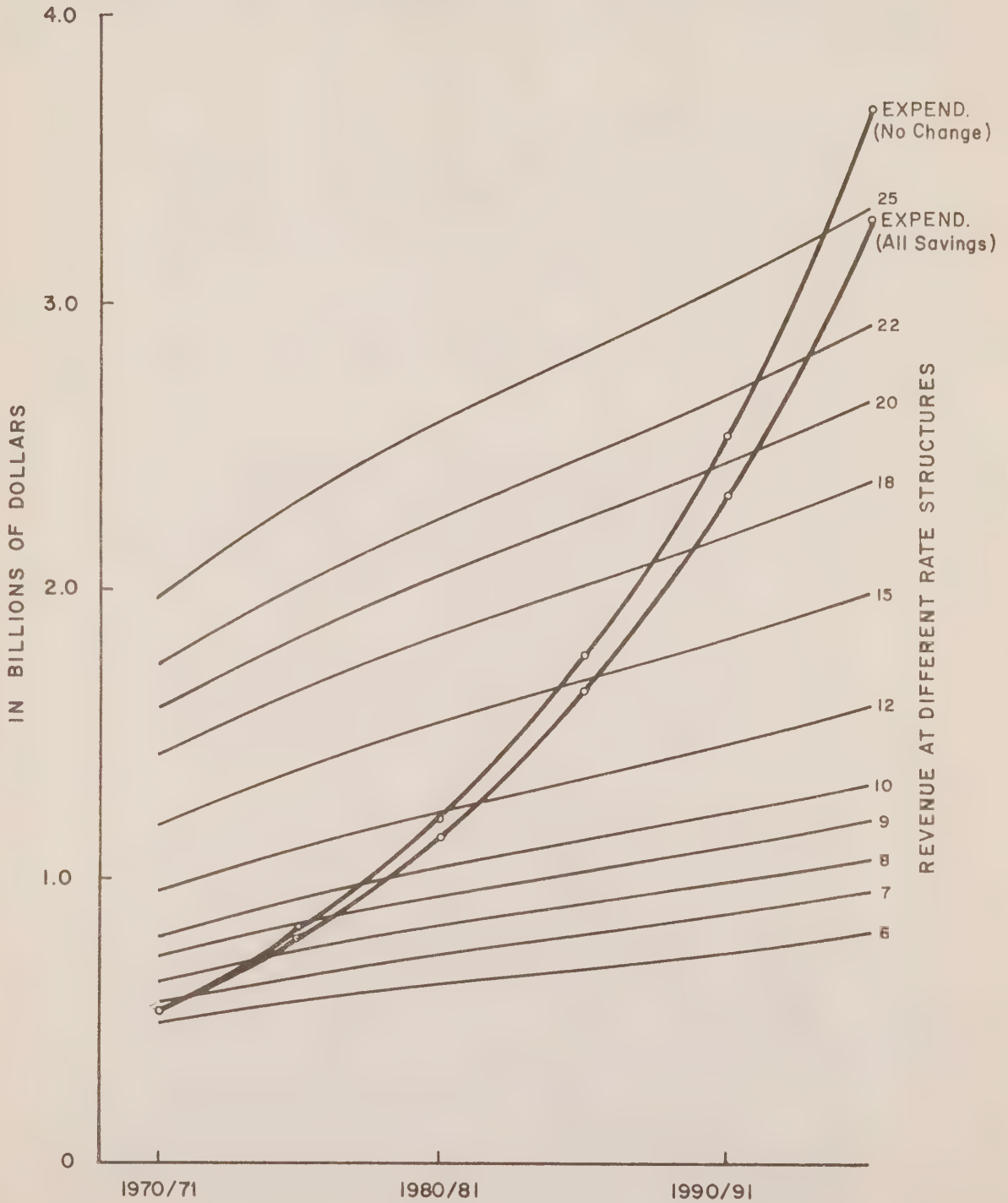
A rationale could be that if the letter carrier cost were to remain at the present 19 per cent of total expenditure, the cost in 1995/96 would be \$650 million, instead of \$930 million. This means that the Post Office would have a claim on \$280 million in 1995/96.

THE EXPENDITURE/REVENUE OUTLOOK

Graph I overleaf shows the revenues that can be expected for

GRAPH I - FORECAST REVENUES AND EXPENDITURES

(Revenues from sales alone)



the years 1970/71 to 1995/96 for rate structures with a 6 cent to a 25 cent first class domestic letter less than one ounce. The revenues shown on this graph are from sales alone, i.e., they do not include the subsidies discussed earlier.

Plotted on the same graph are the forecast expenditures. Two curves are shown. One shows the expenditure without any changes in the present mode of operation and the other shows the expenditures after all the savings which were quantified in this analysis have been deducted.

It must be recognized that this graph shows only the trend of expenditures and revenues. Due to the nature of long-term forecasting, significant variations between actual and forecast figures are inevitable. Short-term forecasts must therefore be developed separately.

The Post Office has a good chance to be operating near the break-even point in a given year with the rate structure which intersects the applicable expenditure curve at that year. For example, in the year 1985, with all savings in effect, the Post Office has a good chance of breaking even with a rate structure with a 15 cent first class letter.

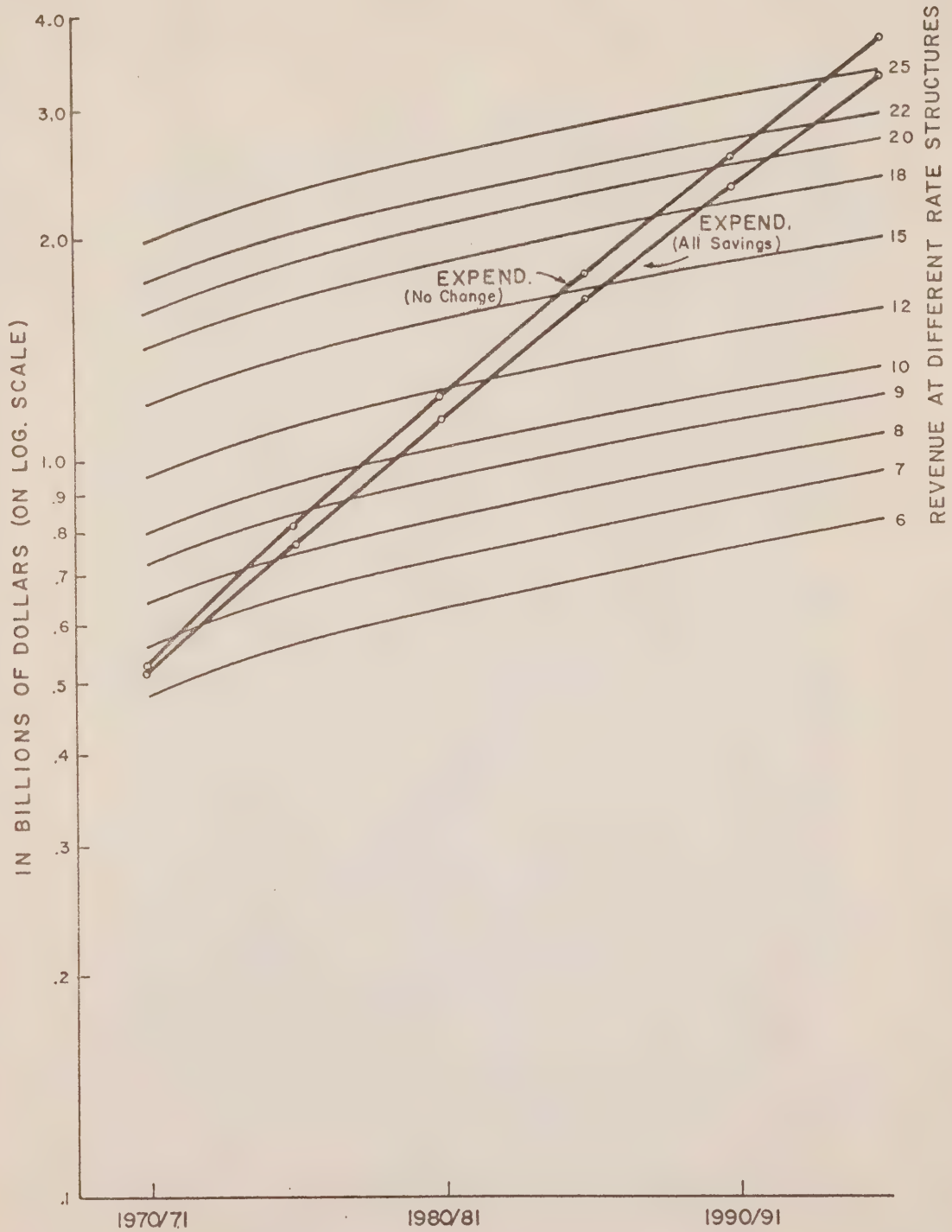
To ensure a surplus, or a return on the capital invested, the rate may have to be higher, say, 16 cents.

In practice, the accuracy of forecasts usually falls within some per cent of the total. For example, the accuracy of a forecast may be plus or minus 10 per cent. This means that a \$300 million error at a forecast of \$3 billion represents the same accuracy as an error of \$100



GRAPH II - FORECAST REVENUES AND EXPENDITURES

(Revenues from sales alone)



million at a forecast of \$1 billion. These errors, though different in magnitude, therefore represent the same accuracy. They also represent the same percentage of the revenue, if the Post Office is operating near the break-even point. This means that they have the same chance of being compensated for by errors in the revenue forecast.

It would be useful to have a graph which shows equivalent variations from forecasts as the same deviation at all levels of the forecast. The curves on Graph I opposite Page A-21 do not have this property. Equivalent degrees of accuracy form diverging lines about the forecast as the absolute value of the forecast increases.

Graph II opposite shows the same curves as in Graph I plotted on semi-logarithmic graph paper. This configuration now has the desirable property that equivalent degrees of accuracy form lines parallel to the forecast. This means that a variation of, say, 1/8 inch above the forecast curve represents the same degree of accuracy at any point on the curve.

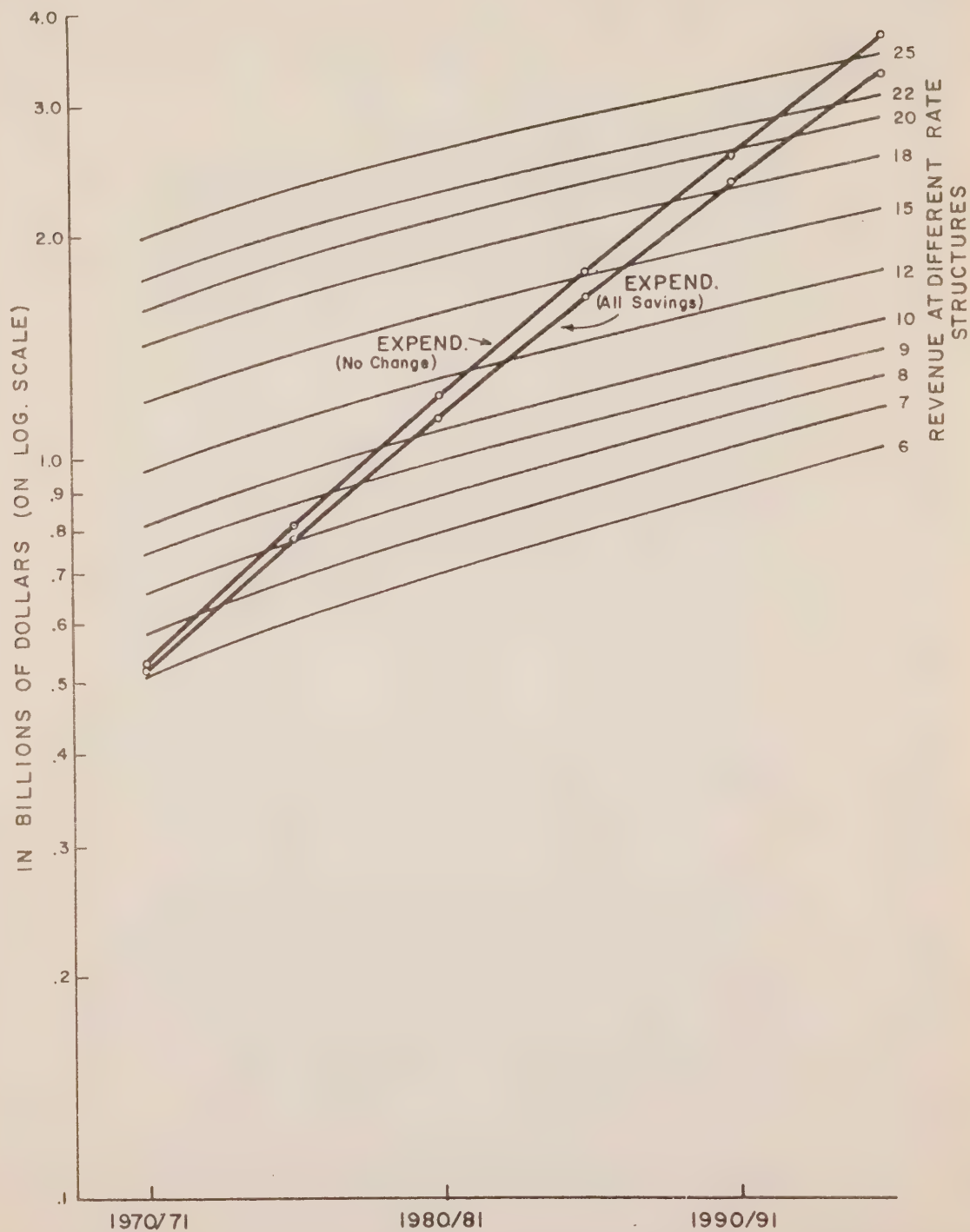
It also means that an allowance for surplus in terms of a given percentage of sales will show as the same absolute distance, say 1/4 inch, on the curve.

The curves of Graph II are therefore of better service in estimating possible future rate increases and in showing the inter-relationship of revenue and expenditure. They do not, however, show the increase in the forecast expenditures as dramatically as Graph I does.



GRAPH III — FORECAST REVENUES AND EXPENDITURES

(Revenues include subsidies)



Graph III opposite shows the revenues with the subsidies included. The total effect of these subsidies on the performance is relatively small. As there is no single action that can significantly reduce the deficit of the Post Office, any potential increase in the revenue must be pursued.

All preceding forecasts and graphs have been based on a rate of inflation of 3 per cent per annum. The forecast expenditures are, however, highly sensitive to this. Graph IV overleaf has been drawn to show this effect. The total expenditures with all savings are shown for no inflation, and rates of inflation of 1 per cent, 2 per cent, 3 per cent (as before) and 4 per cent. All forecasts retained the 3 per cent per annum growth in real income assumed in the forecasts for labour costs. This graph demonstrates well how the forecasts are affected by the rate of inflation, particularly towards the end of the forecast period.

GRAPH IV - FORECAST REVENUES AND EXPENDITURES

Forecast showing expenditures with all savings
with an annual rate of inflation of 0, 1, 2, 3 & 4 percent
(revenues from sales alone)

IN BILLIONS
OF DOLLARS

4.0

3.0

2.0

1.0

0

1970/71

1980/81

1990/91

EXPEND.
4% p.a. INFL.

25
EXPEND.
3% p.a. INFL.

22

20

EXPEND.
2% p.a. INFL.

18

15
EXPEND.
1% p.a. INFL.

12

EXPEND.
NO INFLATION

10

9

8

7

6

REVENUE AT DIFFERENT RATE STRUCTURES



CANADA POST OFFICE

A BLUEPRINT FOR CHANGE

APPENDIX B

ESTABLISHING THE CAPITAL REQUIREMENTS

TABLE OF CONTENTS

	<u>Page</u>
Land and Buildings	B-1
Postal and Office Furniture, Equipment and Machines	B-5
Supplies, Printing and Stationery	B-6
Capital Requirements	B-7
Capital Structure	B-10

SUMMARY BALANCE SHEET
OF THE POST OFFICE DEPARTMENT
as at March 31, 1969

ASSETS

Cash in hand of Postmasters and in transit	\$ 18,716,583
Post Office Accounts in Consolidated Revenue Fund	44,478,269
Securities on Deposit	56,350
Inventory of Material and Fittings	644,955
Accounts Receivable	85,569
Suspense Accounts	<u>443,718</u>
	<u>\$ 64,425,444</u>

LIABILITIES

Post Office Savings, Bank Depositors	\$ 7,561,307
Post Office Accounts in Consolidated Fund	19,325,549
Outstanding Postal Money Orders	34,938,601
Contractors Security and Postage Guarantee Deposits	300,120
Philatelic Trust Account	136,990
Accounts Payable	1,811,469
Suspense Accounts	<u>351,408</u>
	<u>\$ 64,425,444</u>

ESTABLISHING THE CAPITAL REQUIREMENTS

To establish the capital requirements of the Post Office as a Crown corporation, many factors will have to be taken into consideration. A basic consideration is the situation reflected in the summary Balance Sheet of the Post Office Department as at March 31, 1969, illustrated opposite. In accordance with the standard department Government practice, the Balance Sheet does not incorporate a number of important financial factors, including:

- land and buildings (property owned by the Department of Public Works)
- postal machines and equipment
- office furniture and machines
- inventory of supplies, printing and stationery
- government equity in Post Office operations
- pensions.

These financial requirements must be properly established in order to determine the required financial structure.

LAND AND BUILDINGS

At present, all land and buildings occupied by the Post Office, in whole or in part, are managed by the Department of Public Works. Responsibility for the provision of accommodation to Government departments is delegated to the Department of Public Works. Funds for capital projects are included in the estimates of the Department of Public Works.

THE HISTORY OF THE

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The Post Office is in effect a tenant of the Department of Public Works and currently, accommodation costs are recorded only as memorandum figures for annual reporting purposes.

Accommodation for the Post Office can be a major capital item, essential to its operation. As at September 1968, the Post Office occupied space in 1,834 Government-owned buildings as follows:

<u>SPACE OCCUPIED BY THE POST OFFICE*</u>				
% of Occupancy	No. of Buildings	Square Feet	Estimated Replacement Value per Sq. Ft.	Total Estimated Replacement Value
100	902	1,048,534	\$31.50	\$ 33,028,820
85-100	236	2,658,568	\$25.30	67,261,770
50-85	391	2,861,383	\$25.30	72,392,990
0-50	<u>305</u>	<u>1,861,789</u>	\$25.30	<u>47,103,262</u>
	<u>1,834</u>	<u>8,430,274</u>		<u>\$219,786,842</u>

In addition, the Post Office occupies leased private property amounting to about 1,450,000 square feet.

Future accommodation requirements** have been estimated as follows:

* Data contained in memorandum prepared 6/11/68 by Mr. J.A. MacDonald - Post Office Department.

** Memorandum and charts prepared 16/4/68 by Mr. R.B. Whiting - Department of Public Works.

1967 - 68	9,886,100 sq.ft.
1968 - 69	10,072,900 "
1969 - 70	10,259,700 "
1970 - 71	10,466,500 "
1971 - 72	10,633,300 "
1972 - 73	10,820,100 "
1973 - 74	11,006,900 "
1974 - 75	11,193,100 "

Depending on Government policy, various alternative approaches to accommodation will be available to the Post Office as a Crown corporation. They are:

1. Continue lease arrangements with the Department of Public Works.
2. Take over land and buildings from the Department of Public Works.
3. Combination of 1 and 2 above.
4. Obtain premises from private sources on a buy or lease basis.

A major factor in any take-over of land and buildings is the problem of arriving at their proper valuation. Present property inventory records are not complete and data cannot be readily extracted. Thus, considerable time and effort may be required to arrive at a proper valuation.

Another complicating factor is that in over 50 per cent of the buildings occupied by the Post Office, it is not the sole occupant. If the Post Office were to take over such properties, it would have to be prepared to manage them on a commercial basis or sub-contract the property management. Also, some of the buildings may not be suitable for postal operations, and the Post Office may not wish in all instances to take over or retain such buildings.

No definitive decision has been made regarding the take-over of land and buildings by the Post Office. The figure arrived at for land and buildings is, therefore, only a very broad estimate. The criterion used of 85 per cent occupancy is an arbitrary allocation. Prior to the formation of the Crown corporation, a study of land and building requirements will be essential to establish what land and building facilities should be taken over by the Post Office.

As at September 1968, the estimated replacement value of buildings occupied, in excess of 85 per cent, was \$100 million. If we assume that such buildings are on the average at least 50 per cent depreciated, then the book value is estimated at \$50 million.

Property management is presently under study by the Government and policy regarding property utilized by various departments and/or Crown corporations has not been formulated yet.

Subject to the Government policy developed, an approach to land and buildings for the Post Office could be as follows:

1. Continue present arrangements with the Department of Public Works for all leased land and buildings.
2. Take over Crown-owned buildings occupied 85 per cent or more by the Post Office at a mutually agreed value.
3. Subsequent to the establishment of the Post Office as a Crown corporation and with adequate property management capability, the provision of the required postal facilities could be approached in one of the following ways:
 - leasing premises from the Department of Public Works
 - owning its facilities and buildings with or without the services of the Department of Public Works
 - leasing premises directly from private sources
 - combination of private and Government facilities.

POSTAL AND OFFICE FURNITURE,
EQUIPMENT AND MACHINES

In accordance with Post Office practice, equipment purchases are charged off against current income directly in the costs of operations. A summary of the estimated replacement value* of such equipment as at March 31, 1968 is shown in the table below.

<u>Standard Equipment</u> (cases, tables, trucks, scales, stamp vending and cancelling machines)	\$19,663,560
<u>Plant Machines and Equipment</u> (tractors, mechanical trucks, stackers, conveyors, intercom, meters)	1,879,603
<u>Workshop Machines and Tools</u>	458,660
<u>Office Furniture and Safes</u>	6,228,265
<u>Office Machines</u>	1,456,922
	<u>\$29,687,010</u>

* Data obtained from memorandum dated November 1, 1968 - Mr. J.A. MacDonald - Post Office Department.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes the need for transparency and accountability in financial reporting.

2. The second part of the document outlines the various methods and techniques used to collect and analyze data. It includes a detailed description of the experimental procedures and the statistical analysis performed.

3. The third part of the document presents the results of the study. It includes a series of tables and graphs that illustrate the findings of the research. The data shows a clear trend of increasing activity over time.

4. The fourth part of the document discusses the implications of the findings. It suggests that the results have significant implications for the field of study and may lead to further research in this area.

5. The fifth part of the document concludes the study. It summarizes the main findings and provides a final statement on the importance of the research.

The following table shows the results of the experiment. The data is presented in a clear and concise manner, allowing for easy comparison of the different groups.

Group	Activity	Frequency
Group A	Activity 1	10
Group A	Activity 2	15
Group A	Activity 3	20
Group B	Activity 1	12
Group B	Activity 2	18
Group B	Activity 3	22
Group C	Activity 1	14
Group C	Activity 2	20
Group C	Activity 3	24

The results of the experiment show that Group C has the highest frequency of activity across all three categories. This suggests that Group C may be more active or engaged than the other groups.

The data also shows that there is a general trend of increasing activity across all groups. This could be due to a variety of factors, including changes in the environment or the nature of the activity itself.

Overall, the results of the experiment provide valuable insights into the behavior of the groups and the factors that influence their activity. Further research is needed to explore these findings in more detail.

The majority of the items constituting the above inventory are valued at a replacement cost below \$1,000. Under normal industrial accounting practices, a minimum value per item would be placed on such equipment to act as a guideline on whether the item should be capitalized or charged to operations.

A revaluation of the above inventory on the basis of a minimum capitalization value of \$1,000 substantially alters the inventory total as follows:

Standard Equipment	\$ 186,400
Plant Machines and Equipment	1,687,625
Workshop Machine and Tools	-
Office Furniture and Safes	2,795,658
Office Machines	<u>103,190</u>
	<u>\$4,772,873</u>

We recommend that the Post Office establish capitalization guidelines and revalue the present inventory of capital assets at the time of incorporation.

SUPPLIES, PRINTING
AND STATIONERY

As at March 31, 1968, the inventory of supplies, printing and stationery, valued at cost, amounted to \$1,403,369.

ESTIMATED SUMMARY BALANCE SHEET
OF THE POST OFFICE DEPARTMENT
as at March 31, 1971

(IN THOUSANDS OF DOLLARS)

ASSETS

Cash on hand and in transit	28,000
Post Office Accounts in Consolidated Fund	<u>44,185</u>
	72,185
Securities Deposits	300
Inventory - materials	710
Accounts Receivable	100
Suspense Accounts	<u>480</u>
	<u><u>73,775</u></u>

LIABILITIES

Post Office Savings Bank Deposits	4,500
Post Office Accounts in Consolidated Funds	28,710
Outstanding Money Orders	37,500
Contractors and Postage Guarantees	300
Philatelic Trust Account	165
Accounts Payable	2,250
Suspense Accounts	<u>350</u>
	<u><u>73,775</u></u>

CAPITAL REQUIREMENTS

Assuming that the target date for incorporation can be no earlier than April 1, 1971, we illustrate opposite the estimated Balance Sheet as at March 31, 1971, on the same basis as at present.

To establish the initial capital requirements, this estimated Balance Sheet will have to be adjusted by incorporating the assets not recorded by the Post Office, namely:

- inventory of supplies
- furniture, equipment and machines
- land and buildings.

Assuming that the value of assets (excluding land and buildings) inventoried as at March 31, 1968 represents a base asset value, we have projected the value on the same approximate basis as the increase in expenditures, to provide asset values as at March 31, 1971. We have also assumed that only assets of value in excess of \$1,000 have been capitalized. On this basis as at March 31, 1971 the value of assets would be as follows:

Inventory of Supplies	\$2,130,000
Furniture, Equipment and Machines	<u>7,255,000</u>
	<u>\$9,385,000</u>

1. *Chlorophyll a*

2. *Chlorophyll b*

3. *Carotenoids*

4. *Phaeophytin a*

5. *Phaeophytin b*

Sample		Concentration
1	Chlorophyll a	0.001
1	Chlorophyll b	0.001
1	Carotenoids	0.001
1	Phaeophytin a	0.001
1	Phaeophytin b	0.001
2	Chlorophyll a	0.001
2	Chlorophyll b	0.001
2	Carotenoids	0.001
2	Phaeophytin a	0.001
2	Phaeophytin b	0.001
3	Chlorophyll a	0.001
3	Chlorophyll b	0.001
3	Carotenoids	0.001
3	Phaeophytin a	0.001
3	Phaeophytin b	0.001
4	Chlorophyll a	0.001
4	Chlorophyll b	0.001
4	Carotenoids	0.001
4	Phaeophytin a	0.001
4	Phaeophytin b	0.001
5	Chlorophyll a	0.001
5	Chlorophyll b	0.001
5	Carotenoids	0.001
5	Phaeophytin a	0.001
5	Phaeophytin b	0.001
6	Chlorophyll a	0.001
6	Chlorophyll b	0.001
6	Carotenoids	0.001
6	Phaeophytin a	0.001
6	Phaeophytin b	0.001
7	Chlorophyll a	0.001
7	Chlorophyll b	0.001
7	Carotenoids	0.001
7	Phaeophytin a	0.001
7	Phaeophytin b	0.001
8	Chlorophyll a	0.001
8	Chlorophyll b	0.001
8	Carotenoids	0.001
8	Phaeophytin a	0.001
8	Phaeophytin b	0.001
9	Chlorophyll a	0.001
9	Chlorophyll b	0.001
9	Carotenoids	0.001
9	Phaeophytin a	0.001
9	Phaeophytin b	0.001
10	Chlorophyll a	0.001
10	Chlorophyll b	0.001
10	Carotenoids	0.001
10	Phaeophytin a	0.001
10	Phaeophytin b	0.001

11. *Phaeophytin c*

12. *Phaeophytin d*

13. *Phaeophytin e*

14. *Phaeophytin f*

15. *Phaeophytin g*

16. *Phaeophytin h*

17. *Phaeophytin i*

18. *Phaeophytin j*

19. *Phaeophytin k*

20. *Phaeophytin l*

PATTERN OF EXPENDITURE AND REVENUE FLOW

MONTH	REVENUE	EXPENDITURE
	%	%
April	8	5
May	8	8
June	7	7
July	6	7
August	6	8
September	8	8
October	9	9
November	10	9
December	12	10
January	9	9
February	8	8
March	9	12
TOTAL	<u>100</u>	<u>100</u>

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Working Capital Requirements

Adequate working capital must be provided to meet daily expenditures. With postal services being presently paid for in advance, it would appear that minimum working capital levels will be required. This will only be true if we assume that the recommended operating procedures will include flexibility of rate setting and hence, the projected operating results which incorporate rate increases, as previously illustrated, will be achieved.

Shown opposite is the monthly cash flow pattern of revenue and expenditures, expressed as percentages, averaged over the five-year period ended March 31, 1969. With the exception of the pattern at the end of the year, cash flow is relatively even with no major seasonal fluctuations.

The application of this cash flow pattern to the revenues and expenditures (amended for a base rate of 8 cents, excluding savings and subsidies) for the year commencing April 1, 1971, the date assumed for incorporation, indicates a working capital requirement of about \$25 million.

Cash Float

The Post Office has "in trust" funds and in addition, is the collection agency for certain other agencies of Government. Monies collected include Money Orders, Unemployment Insurance Stamp purchases and Post Office Saving Bank deposits. Regarding the purchase of Unemployment

Insurance Stamps, it is assumed that the "Bulk Plan System" will, for all practical purposes, eliminate major Post Office involvement in the Unemployment Insurance Corporation operations. Accordingly, we estimate that the funds held in trust as at March 31, 1971 will be:

Post Office Savings Bank	\$ 4,500,000
Outstanding Money Orders	<u>37,500,000</u>
	<u>\$42,000,000</u>

If we assume that, as a minimum requirement, at least a 10 per cent (\$4,200,000) reserve against these funds is held in trust, use of the balance of \$37,800,000 could be considered for operating purposes. Initially, until the Post Office is a viable operation, such trust monies should be held in the accounts on a funded basis and should not be used as working capital.

Capital Expenditure
Requirements

In addition to meeting the operating financial requirements, consideration must be given to the financing of required capital expenditure programs. These will involve:

1. Normal replacement of, and additional requirements for, postal and office furniture, equipment and machines.
2. Dependent upon Government policy, possible investment in land and buildings.

FORECASTS OF POSSIBLE CAPITAL EXPENDITURE REQUIREMENTS

YEAR	POSTAL & OFFICE FURNITURE EQUIPMENT AND MACHINES	AUTOMATION	TOTAL
(IN THOUSANDS OF DOLLARS)			
1970-71	945	5,700	6,645
1971-72	725	20,280	21,005
1972-73	790	22,030	22,820
1973-74	876	14,750	15,626
1974-75	<u>953</u>	<u>11,040</u>	<u>11,993</u>
	<u>4,289</u>	<u>73,800</u>	<u>78,089</u>

Kates, Peat, Marwick & Co.

3. Major capital expenditures to effect improved operations through automation.

Estimates of possible capital expenditure programs resulting from the recent consultants' studies, excluding land and buildings are scheduled opposite. Thus, on the basis of these figures (which do not include potential capital expenditures that may arise, but have not been identified at this time) during the five-year period ending 1975, estimated capital funds amounting to a minimum of \$78 million will be required. Therefore, a fund of at least \$100 million appears necessary in addition to the normal capital expenditures amounting to an estimated \$22 million for the five-year period ending 1976.

Normally, a corporation in the private sector would finance its capital requirements on the open market. On the basis of past financial performance, however, the Post Office as a corporate entity would initially have difficulty raising adequate capital at competitive costs. Therefore, to meet future capital expenditure needs, the Crown corporation would require authority to borrow funds from the Government of Canada when necessary, with such funds being secured by the assets of the Post Office.

CAPITAL STRUCTURE

In developing a capital structure for the Post Office as a Crown corporation, the following aspects must be taken into account:

- consideration of the equity in existence prior to incorporation in the form of inventories, postal and office equipment and, dependent upon Government policy, land and building
- provisions of sufficient funds to meet operating requirements
- provision of funds to undertake capital expenditure and improvement programs subsequent to incorporation
- financing for the transition period, the amount of which is dependent on the speed of action taken by the Government to allow for improvements in the financial operations of the Post Office.

Financing of the Post Office could be accomplished in various ways. Whatever the method, flexibility of corporate financial management will be essential. Although the desire to provide a return on the capital employed by the Post Office is quite understandable, it should not become so overriding that it results in the establishment of corporate goals which are neither attainable nor desirable. The initial aim should be to operate the Post Office efficiently, with revenues sufficient to meet operating costs, including pension fund contributions and interest on borrowings.

In general, the corporation could be financed by the following means:

1. Equity Account. Funds could be obtained as and when required by application to the Government of Canada. Funds so provided would be credited to an Equity or Proprietors' Net Worth Account.

2. Borrowings. Funds could be obtained in the form of loans and/or bond issues. Such funds could be interest bearing, non-interest bearing, or interest bearing after a specific period of time from date of issue.
3. Capital Stock. Shares could be issued to represent the investment by Government in the Post Office. The stock issue could be either non-dividend bearing or dividend bearing in the case of preferred shares. To provide flexibility for future repayment of funds out of future earnings, consideration could be given to the utilization of redeemable preferred shares.

Capital stock on a subscription or call basis could also be used to finance the Post Office during the transition period. Stock of a face value equal to the budgeted deficit (if any) for the period required to reach a position where revenues meet expenditures, could be issued and funds called as required.

4. Government Grants or Appropriations. Parliament could provide funds by grant and/or appropriation. This arrangement may inhibit Post Office management from achieving self-sufficiency. Such a course of action could, however, be of value during the transition period.

The following approach to the corporate financial structure would provide the required flexibility:

1. For assets (excluding land and buildings) held by the Post Office at the time of incorporation, common shares would be issued to the agreed value of the assets.
2. To provide for the base working capital fund, monies would be provided by the Government in the form of an issue of common shares.
3. To provide for funds to carry out the improvement program and to finance any capital purchases of equipment related to this program, an agreed fund, to be drawn on by the Post Office, would be established and budgeted.
4. If land and buildings are taken over by the Post Office, interest bearing redeemable bonds or common shares would be issued to the agreed value of these assets.

ESTIMATED BALANCE SHEET
OF THE POST OFFICE
AS A CROWN CORPORATION
as at April 1, 1971

<u>ASSETS</u>		<u>Without Land and Buildings</u>	<u>With Land and Buildings</u>
		<u>(IN THOUSANDS OF DOLLARS)</u>	
<u>CURRENT ASSETS</u>			
Cash on hand and in transit		28,000	28,000
Cash in bank		27,020	27,020
Inventory:			
- materials		710	710
- supplies		2,130	2,130
Accounts Receivable		100	100
		<u>57,960</u>	<u>57,960</u>
<u>SECURITY DEPOSITS</u>		300	300
<u>TRUST FUNDS</u>			
Post Office Savings Bank	4,500		
Outstanding Money Orders	37,500		
Philatelic Accounts	<u>165</u>	42,165	42,165
<u>FIXED ASSETS</u>		7,255	57,255
<u>DUE FROM GOVERNMENT IMPROVEMENT FUND</u>		100,000	100,000
<u>SUSPENSE ACCOUNTS</u>		<u>480</u>	<u>480</u>
		<u>208,160</u>	<u>258,160</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable		2,250	2,250
Suspense Accounts		350	350
		<u>2,600</u>	<u>2,600</u>
<u>DUE TO RECEIVER GENERAL OF CANADA</u>		28,710	28,710
<u>TRUST ACCOUNTS</u>			
Post Office Savings Bank	4,500		
Money Orders	37,500		
Philatelic Accounts	<u>165</u>	42,165	42,165
<u>CONTRACTS AND POSTAGE GUARANTEES</u>		300	300
<u>BONDS</u>			50,000
<u>IMPROVEMENT FUND</u>		100,000	100,000
<u>NET WORTH</u>			
Common Stock N.P.V.		<u>34,385</u>	<u>34,385</u>
		<u>208,160</u>	<u>258,160</u>

Notes:

1. It is estimated that the liability for past service pension benefits would be in the range of \$300 million. It is assumed that this will be a liability of the Government of Canada.
2. Fixed Assets have been valued at an estimated depreciated replacement value. The value of assets will be affected to the extent that the Post Office takes over assets presently controlled by the departments of Government.
3. Facility improvement plans have not been fully formulated and therefore funds required for future capital expenditures cannot be fully evaluated or indicated.

5. To provide for possible budgeted excess of expenditures over revenues during the transition period, financing could be provided by Government appropriations or the issue of subscription shares to the value of financing required.

Illustrated opposite is the estimated balance sheet as at April 1, 1971, incorporating the following:

- capitalization of existing assets (equity)
- working capital fund
- improvement fund
- with and without allowance for land and buildings.

This estimated balance sheet appeared earlier on Pages 19 and 72. This estimated balance sheet is provided only for the purpose of presenting, in outline form, a proposed financial structure for the Crown corporation and is not to be regarded as a forecast of the actual financial position at the date specified. It is emphasized that the estimated balance sheets are based on a series of broad assumptions, which by their nature, must be tentative.

ESTIMATED BALANCE SHEET
OF THE POST OFFICE
AS A CROWN CORPORATION
as at April 1, 1971

<u>ASSETS</u>		Without Land and Buildings	With Land and Buildings
		(IN THOUSANDS OF DOLLARS)	
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